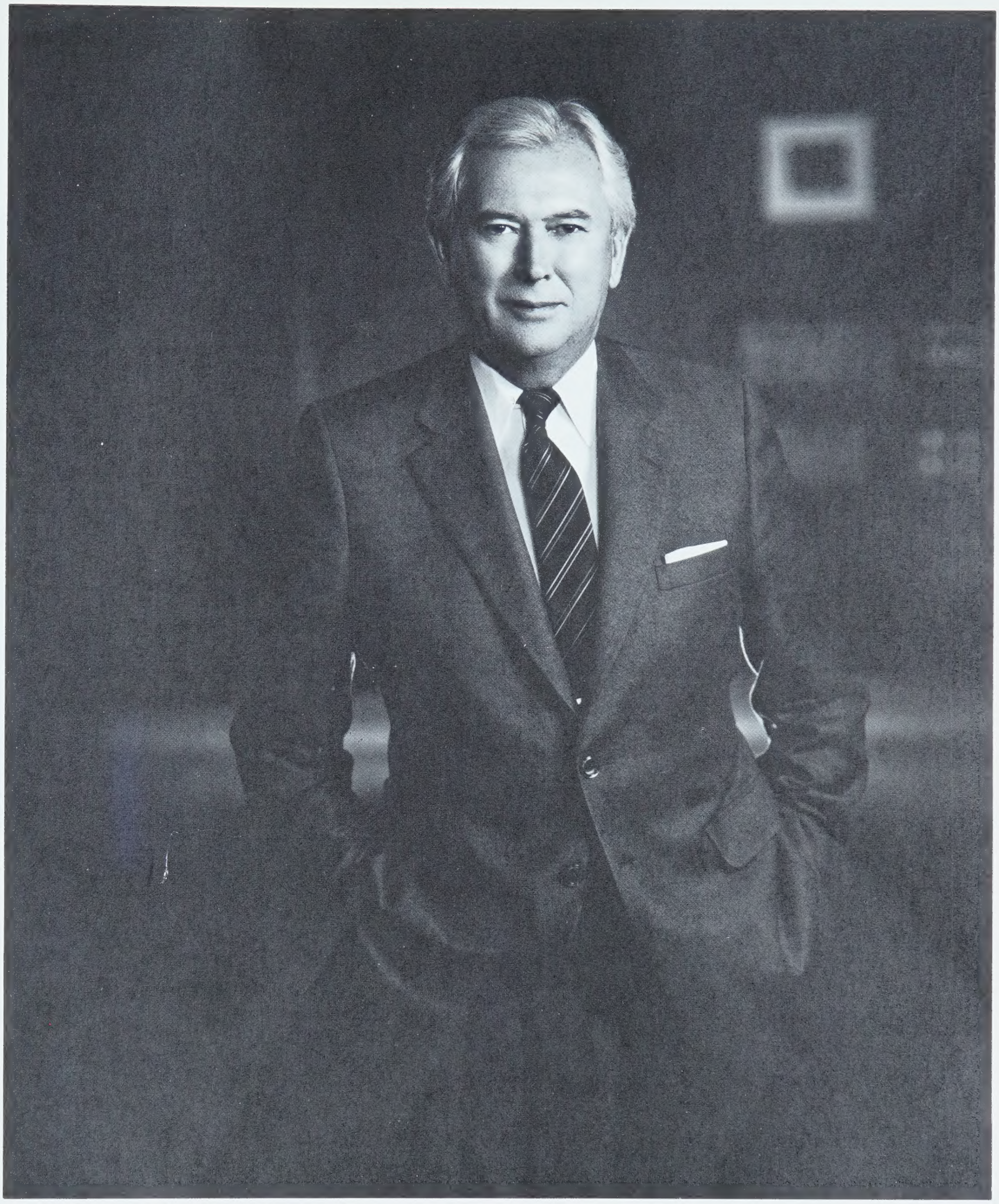
CANADIAN IMPERIAL
BANK OF COMMERCE

Annual Report 1981

Contents

Sur simple demande, nous nous ferons un plaisir de vous faire parvenir la version française du présent rapport.



Russell E. Harrison, *Chairman and Chief Executive Officer*

Report of the Chairman

One year ago, in my report to the Shareholders of Canadian Imperial Bank of Commerce, I acknowledged that the performance of our Bank in fiscal 1980 had been less than satisfactory and pledged myself to turn that performance around. I stated that we had our plans in place at that time and that we would devote all our energies to ensuring that they were successfully implemented.

I should like to begin my report on fiscal 1981 by reviewing the results, noting the actions we have taken to reinvigorate our performance and then assessing the impact of these measures.

FINANCIAL RESULTS

The past year must be viewed as the first phase of a recovery program, and we have made a good start by putting our house in better financial order. The results reflect the headway we have made in three vital areas: first, dealing with our mismatch of funds; second, controlling our operating costs; and, third, strengthening our capital resources.

But while we can take some satisfaction from our performance to date, the real challenge still lies ahead. The economy is going to remain difficult and, therefore, it is absolutely essential that we continue to strive for the utmost efficiency in all aspects of our increasingly complex and competitive business.

Our 1981 earnings were $310 million, up 62% from the dismal showing of 1980. The major factors in this improvement were a 35% increase in net interest revenues and our holding of the rise in expenses to 15%. During the same period our assets grew by 21% to almost $67 billion.

This growth in assets and earnings is reflected in the following indicators which are important yardsticks for shareholders and analysts:

First, in 1981 we earned 51 cents per $100 of assets, a heartening increase from the 38 cents we earned a year earlier. But this is still well below the industry average of 57 cents for 1981 and well below what should be considered a satisfactory return.

Second, in the past year, we improved our return on equity from 14.2% to 18.3% and this is a recognized measure of progress. Also, our earnings per share rebounded from $4.90 in 1980 to a record $6.95, on a fully diluted basis, in 1981.

A key factor in earnings growth was the improvement in the net interest margin from 2.41% to 2.68%. But, it too must be seen in proper perspective because it is lower than our margins for 1977 and 1978 and is about the same as that for 1979. In those years, of course, interest rates were considerably lower than they have been recently. And I should add that, even at 2.68%, we are still well below the industry average of 3.26% for 1981.

Our loans increased 30% to $43.8 billion. General loans, mainly over $5 million and to such industries as oil and gas and transportation, were up by about $5 billion, as were foreign currency loans. Consumer loans rose 10%.

The level of mortgages was down almost 17% due to the fact that the Bank has adopted a policy of transferring mortgages to the Bank's subsidiary Kinross Mortgage Corporation as they come up for renewal and all new business is being lodged in Kinross where it will be funded by Guaranteed Investment Certificates issued by Kinross.


R. Donald Fullerton, *Vice-Chairman and President*

As was to be expected in a year of record-high interest rates, the Bank experienced a marked increase in high-cost deposits, which rose by 23%. At the same time, foreign currency deposits grew by 18%.

Loss experience on loans—comprising loan write-offs and allowance for doubtful loans—amounted to $160 million in 1981 compared to $218 million the previous year.

Loss experience on loans is charged each year against Accumulated Appropriations for Losses. Concurrently, a provision for losses on loans is added to Accumulated Appropriations, and is reflected as an expense of operations in arriving at Balance of Revenue. This provision is calculated in accordance with a formula prescribed by regulations under the Bank Act, and it takes into account five-year average loss ratios and the current level of loans.

The provision for losses on loans amounted to $208 million in 1981, compared with $163 million in 1980 and

reflects the continuing impact of the allowance for losses to a single borrower and the higher level of loans.

Domestic operations made some recovery during 1981 and earnings rose to $200 million. The principal contributor was the improvement in interest spreads, coupled with the 18% growth in Canadian dollar loans.

Despite generally low interest spreads, the yield from our international operations held up fairly well and prospects for growth are encouraging.

BANK PROFITS

The adequacy of profits is always a sensitive subject, but it is especially so during a period of recession marked by continued double-digit inflation and hurtfully high interest rates.

Nevertheless, I think it is important that I speak plainly on this matter at this particular time. May I begin by stressing two points. First, the state of a bank's health should never be measured by the superficial and misleading yardstick of the percentage gain in profits, year to year. Second, the hard fact is that our overall profit performance is still less than satisfactory and it must improve.

To put our 1981 bottom line in perspective, consider this: for the Commerce to have achieved the average return on assets of the other major banks, its profit would have had to be about $60 million higher than it actually was.

As every shareholder is aware, Canada's chartered banks have been accused of making "windfall profits" from high interest rates. It is regrettable that this misconception should be so widespread when the truth is that the profits of the banks in 1981 were just about average in historical terms. It is regrettable, too, that so many people appear to believe that interest rates are determined by the chartered banks themselves. In fact, they are subject to a number of forces both internal and external relating to fiscal policy, supply and demand in financial markets as well as international interest rate trends. And, of course, at any given time they are strongly influenced by the policies of the Bank of Canada.

As interest rates decline, bank margins will inevitably be narrowed because of the time-lag in the decline of deposit interest rates. We have reason to believe that first-quarter profits in 1982 will be squeezed as rates continue to slide. Criticism might be somewhat less severe if this cyclical effect of volatile interest rates on bank profits were better understood.

Those who yield to the temptation to pillory the banks are doing nothing to improve the nation's economic condition—quite the opposite. The banks are the acknowledged cornerstone of Canada's financial system and at this particular time it is important that they earn the level of profits that will allow them to maintain the confidence of their hundreds of thousands of customers and investors at home and abroad.

If our industry's critics took the time to investigate, they would quickly find that the average profit of Canadian banks has been lower than that of many major banks in the United States and Britain during the past several years. They would also find that a large proportion of the revenues of Canadian banks is earned outside of Canada. Approximately 40 per cent of Canadian bank assets are held in foreign currencies and these operations are not financed in Canada.

In the case of our own Bank, the distinct improvement in profits achieved in 1981 helped to compensate for several successive lean years, but it was not the result of any "windfall". It was principally the outcome of a program of belt-tightening, necessitated by our unsatisfactory performance in a demanding economic environment. And that program, in turn, is evidence that we take very seriously our responsibility to provide our shareholders with a fair and equitable return on their investment.

Let us look at a hypothetical scenario in which we apply all of our profits for 1981, including the monies to be paid out as dividends, to reducing interest rates. The net result would be to push them down by less than one per cent. This is hardly the kind of help that today's beleaguered borrowers are looking for.

NEW OPTIONS, MORE FLEXIBILITY

Far from "enjoying" high interest rates—as banks have been accused of doing—we find they inhibit and interfere with the normal course of business. At the same time, we are acutely conscious of the hardships inflicted on so many Canadians by such interest rates, and this has been especially evident in domestic mortgages, farm loans and small-business loans. Consequently, we are trying to do all we can, consistent with responsible business practices, to alleviate these extraordinary burdens.

We are making extra efforts to keep in touch with our mortgage customers, to acquaint them with the expanding range of options available, and to co-operate with them in designing plans that best fit their respective incomes.

In mid-July, we introduced an interest deferral plan to assist in hardship cases and this was taken up by a number of our mortgagors. In October, we expanded this program to allow any mortgagor not in default to have his or her monthly payment based on a rate as low as 16% with the balance of interest being deferred.

Also in October, we introduced the first truly variable-rate mortgage available in Canada. Key among its advantages is the fact that the new Commerce Householder Mortgage allows the borrower to receive the benefit of any decline in mortgage prime rates on a monthly basis. Admittedly, it can be utilized only by those who have at least 30% equity in their homes, but the response to date indicates that it is being viewed as a flexible instrument well-suited to these changeable times.

Towards the end of the year, we took steps to assist those who had renewed their mortgages when rates were at an unprecedented peak. As a result, we rolled back our rates by as much as 1½ per cent on single-family dwelling renewals that had been signed during September, October and November.

Specialist groups within our Corporate Banking Division have paid special attention to dealing with the problems that confront the farmer and the small businessman. The Commerce has provided sizeable amounts in loans under the Small Business Development Bond program. Similarly, we have restructured dozens of arrangements with our farm customers to help soften the impact of high interest rates on this vital sector of the Canadian economy. We have also made considerable progress in providing special service packages (for example, franchise financing and Commerce farm services programs) to these business sectors with a view to improving their operating efficiency and financial practices.

FINANCIAL MANAGEMENT

Our search for material and lasting improvement in the profitability and financial management of the Bank has led logically to an expansion of the Finance Division. Indeed, this broadening of responsibility and influence was recently recognized with the creation of the Treasury group, which has a global mandate and embraces three divisions—finance, policy and planning, and taxation.

The strengthening of the Bank's capital base, the matching of its liability maturities with those of its new fixed-rate loans and securities, the production of satisfactory net interest margins and the preservation of market share have been and continue to be the top priorities of the Policy and Planning Division, which is a vital part of the new group. The Division has four sections assigned to capital planning, financial analysis and control, product planning and strategic planning.

During the past 18 months, your Bank has been very active in developing and implementing innovative public financings which have raised the equivalent of about $850 million (Canadian). These include three public issues of debentures in the European market, two U.S. dollar Eurodeposit notes, an issue of Convertible Preferred Shares, an issue of Preferred Shares with warrants, a Stock Dividend Program and a Shareholder Dividend Reinvestment and Share Purchase Plan.

Through these initiatives the Commerce has markedly strengthened its capital position. Our capital resources now stand at $2 billion, up $539 million from last year.

John A. C. Hilliker, *Vice-Chairman*

Perhaps indicative of our aggressiveness in this area is the fact that, with our Convertible Preferred issue in February 1981, we became the first chartered bank to offer shares under the terms of the new Bank Act.

Our objective during 1982 will be to ensure that the Bank's capital position continues to improve, relative to the rest of the banking industry and to historical standards. The need for us to raise capital externally will depend on the amount of asset growth we generate and on the return on assets which it earns. At all times, we will strive to minimize the dilution in earnings per share which results from new issues of common shares or equivalent securities.

Our campaign to correct the mismatch of maturities that so adversely affected the Bank's profits in the recent past is now showing positive results and this trend is expected to accelerate in 1982.

Despite the increase in short-term interest rates over the past year, the spread of our mortgage and consumer loan portfolios has been much improved due to better funding techniques.

The Bank is mobilizing its financial information resources on a more systematic and sophisticated basis than ever before. This enables us to constantly monitor the financial performance of the Bank and its major subsidiaries to ensure that there is an adequate return on capital without undue risk. It also gives us the capacity to respond quickly when changes are needed, and it will help us to achieve greater co-ordination and control of our domestic and international operations.

Our product planning people have been exceptionally busy over the past year in designing and launching such new services as the Commerce Money Market Investment Certificate, the Commerce Guaranteed Investment Certificate, and the floating rate Commerce Householder Mortgage instrument.

Meanwhile, looking further ahead, we have established a strategic planning team which will develop policy recommendations on global liquidity management and float management. This is aimed at improving the Bank's ability to raise funds on the most economical basis and maximizing investment returns.

DEPLOYMENT OF HUMAN RESOURCES

I have indicated on many occasions my faith in the ability of Commerce people to cope with the changes and adjustments which are necessary in these turbulent times if the Bank is to keep pace with current economic conditions and meet the challenges of the future. This faith has been amply justified during the past year, when we actively pursued a policy of redeploying our human resources in order to offer increasingly efficient service to our individual and corporate customers.

The Bank's management structure was further fine-tuned in 1981 to ensure that the Commerce remained in a fully competitive position to service existing and newly acquired business.

During the summer and fall of 1981, some 2,500 members of our staff moved from downtown Commerce Court to our new

complex in suburban Toronto. The move had the effect of freeing up approximately 124,000 square feet of valuable office space in the core of the city. This has all been rented to outside tenants, resulting in additional rental income of approximately $130,000 per month, or $1,560,000 annually. I am fully aware that this move entailed inconvenience and disruptions for a number of people and I have nothing but praise for the co-operation of the personnel who were involved in this change of location.

The Bank continues to anticipate future management requirements by identifying and planning for the development of promising young officers who have exhibited obvious potential for greater responsibility. For each officer so identified, an individual development plan is created, indicating on-the-job and external course requirements, next likely job placement and expected career progress within a time frame of three to seven years.

During 1981, the Bank sponsored participation of senior officers at executive development programs held in universities in Canada and the United States, thus ensuring that they are kept up-to-date on the most recent and innovative management techniques.

It gives me particular pleasure to note that the Commerce continues to lead other banks in the number of women holding branch management positions. In our Bank, with the largest network of branches, 12.6 per cent of such positions are held by women.

The importance of women in the management structure of the Commerce has long been recognized. Because of this, the Bank has never seen fit to isolate women for a specific program of advancement. Thus, the success of women at the Commerce has been due entirely to their own efforts in equal competition with their male counterparts. However, we don't intend to rest on our laurels in this respect. In 1981, we appointed our first Equal Employment Opportunity Co-ordinator. This officer will conduct a comprehensive review of the status of women throughout the Bank and recommend what changes or improvements ought to be put in place.

BRANCH RATIONALIZATION

The Commerce branch system continues to be one of our most basic and valuable assets. Although we are still engaged in the necessary and sometimes painful program of rationalization begun more than a year ago, this should not be allowed to obscure the fact that we are continuing to plan and open branches in the country's most promising growth areas. In 1981 we closed 99 branches and launched seven new ones, resulting in worthwhile savings in operating costs. In 1982, we intend to streamline the branch system further in tune with the realities of today's marketplace.

Most of the employees displaced as a result of branch rationalization are offered appropriate placement in other areas. Where this is not practical, usually because the people concerned cannot move to a new location, mutually satisfactory separation arrangements are made.

As far as customers are concerned, the Commerce endeavours to minimize inconvenience to our customers by giving ample notice of closing and either offering services at a Branch close by or assisting in the transfer of accounts to other financial institutions.

COMPUTER-BASED SYSTEMS

Our determination to be innovative and competitive in offering new services to customers is reflected in constant improvements to our computer-based systems. Last year we opened a second major computer facility in Metro Toronto, and we are actively examining new technologies such as Telidon with a view to making our services more convenient through easier accessibility. This close attention to advances in technology pays handsome dividends; for example, through faster cheque-handling techniques, we have already achieved savings of $11 million in float costs.

Out of a total of 1,601 Commerce domestic branches, 1,531 are now directly on-line to

our computer centres, and we are continuing to expand our Instant Teller network. By year-end more than 100 of these sophisticated units were providing self-service banking to customers in major metropolitan areas throughout the country.

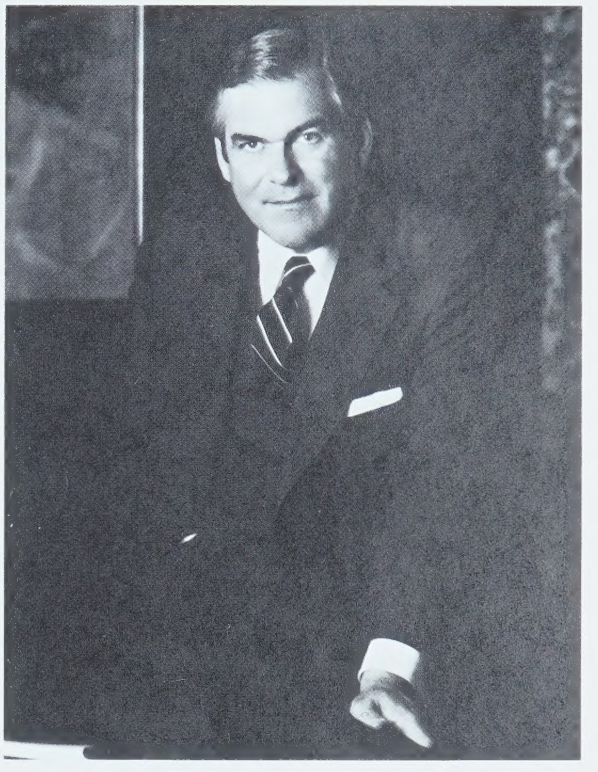
Instant Teller has thoroughly proved itself, in both technical and service terms. In 1982, it is our intention to add a further 150 units to the system, not only at branches but in other convenient locations such as retail stores, office complexes, factories and hospitals. In fact, our subsidiary California Canadian Bank has installed a similar service in the plants and offices of three of the largest multinational corporations based in that state.

CORPORATE AND MERCHANT BANKING

As the business activities of our corporate customers around the world continue to expand in size and scope, the work of our Corporate Banking Division becomes more complex and sophisticated. As a world leader in corporate banking, we have expanded our capabilities to serve this market, establishing specialist teams, each under the direction of a Vice-President, to seek out new business opportunities and to ensure that our corporate customers receive informed and innovative responses to their particular needs.

Recognizing our corporate customers' requirements for unusually productive management of funds during this period of high interest rates, we have enhanced our cash-management services through the introduction of COMMCASH, a flexible on-line information system linking the customer directly with the Bank. Using any standard computer terminal, a corporate customer can now access balance and transaction information on his accounts, make transfers and obtain information on money market, foreign exchange and lending rates.

During 1982, our corporate banking professionals will be supported to an even greater degree by the implementation of new computerized systems now under development.



Frank H. Logan, *Vice-Chairman*

OIL AND GAS DIVISION

The single most important factor influencing the operations of the Bank's Oil and Gas Division in 1981 was the promulgation of the National Energy Program. The objective of greater Canadian control of energy resources, a key element in the program, resulted in several Canadian-controlled corporations acquiring companies and assets owned or controlled by foreign concerns. This, in turn, provided new business opportunities for the Oil and Gas Division which participated in the financing of acquisitions totalling more than $7 billion.

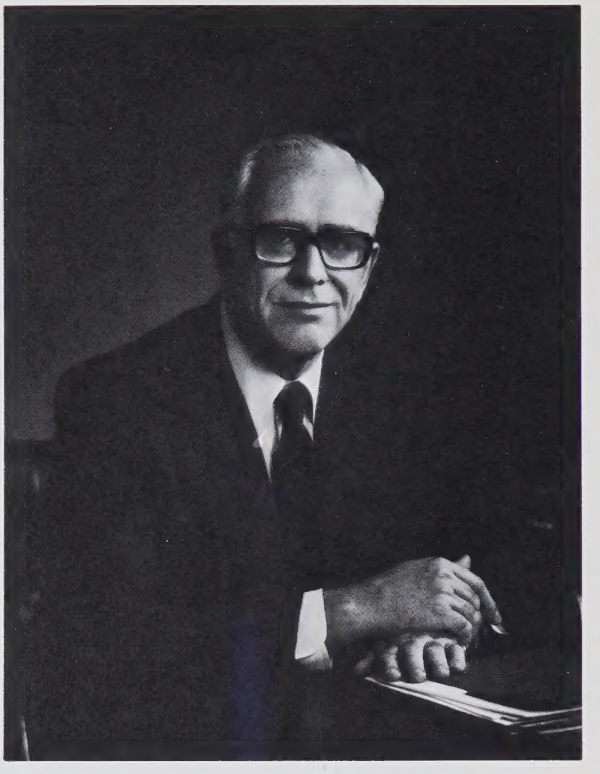
The agreement on an Oil and Gas Pricing Policy, concluded between the Federal and Alberta governments, should provide a degree of stability, although it may not furnish the industry with sufficient additional revenues to reactivate exploration and development on the desired scale. Accordingly, we may not look for buoyant activity in the oil and gas industry during 1982, but I am confident that the long-term development of Canada's vast energy resources will be fully achieved.

The Canadian petrochemical industry is about to embark on a period of exceptional growth with Alberta being the focal point for future expansion. Several large projects have already received approval and others are on the drawing board.

Your Bank's expertise in this complex area is well established and we can expect to achieve a rewarding position as underwriter and manager.

The western leg of the Alaska Highway Gas Pipeline was completed on time. The eastern leg is on schedule and the successful syndication of 50% of our $800 million Phase I underwriting, as planned, is evidence of the support this massive undertaking is receiving in Canada.

Our continuing responsibility as Senior Banking Adviser to Foothills Pipe Line (Yukon) Limited, the Canadian sponsor of the line from Alaska, is enhancing our Bank's already strong reputation as a major pipeline financier.



James G. Bickford, *Executive Vice-President, Administration*

On the international energy front, we have provided operating and term financing to many companies in the United States and in Australia, an activity which we expect will increase substantially throughout the next several years. Government policy in both countries is supportive and Canadian involvement has been dramatically expanded.

UNITED STATES OPERATIONS

The Bank's announced policy of substantially expanding its operating reach and capability in the United States was implemented in a number of practical ways during 1981.

A supervising office was established in New York with responsibility to administer all of the Bank's activities in the United States.

The capital of the Bank's two subsidiaries, California Canadian Bank in San Francisco and Canadian Imperial Bank of Commerce Trust Company in New York, was increased to $100 million each in order to improve the operating capacity of these units to serve a broader corporate market.

In California, we are proceeding to dispose of the 13 consumer retail branches of California Canadian Bank for US$10.5 million, leaving us with 13 commercial branches in the larger centres of the state. This is in line with our decision to concentrate on the U.S. corporate market and we will continue to expand in this direction with the opening of another major branch in a California industrial centre within the next few months.

Our representative offices in Pittsburgh and Chicago were upgraded to limited branches for the purpose of providing direct operating capabilities to the major industrial markets in the Midwest and Great Lakes areas.

New offices were opened in Denver and Houston to complement the Dallas office. These facilities will provide the Bank with strong representation in the U.S. Southwest, with the capacity to generate an increased volume of business related to oil

and gas exploration and production, real estate development and other industrial projects. Of course, energy-related activities will be handled in concert with our Oil and Gas Division in Calgary.

Regarding the U.S. Southwest, I can report with some satisfaction that our Bank, at the end of 1981, had loan commitments of approximately $1 billion in this region, which extends from Montana down to Texas, Oklahoma, Arkansas and Louisiana.

The Bank's Corporate Finance Group in Chicago has strengthened its ability to put together complex financial transactions as well as its special skills in the servicing of a number of capital-intensive industries.

The Bank's aggressive approach to the United States market will continue in 1982, with emphasis on the development of customized service packages for clients in the corporate sector. To complement this program, a number of non-credit services—including a broader range of money-market and foreign exchange activities, automated banking and corporate trust services, cash management systems and letters of credit—will be offered with a view to developing a full banking relationship.

At the end of 1981, the Commerce had nearly $6 billion in loans to residents of the United States compared with $4 billion a year earlier. In essence, the long-range strategy of the Bank in its U.S. operations is to be highly selective in the identification and penetration of markets and, within these, to develop attractive products and services. I am convinced that a concentration of our efforts on this basis will result in a high standard of professional service to our clients in this extremely competitive environment.

OVERSEAS BANKING

The Bank's activities overseas were highlighted by the strengthening of our presence in the Far East and Europe. In August, 1981, we registered our office in Beijing (formerly Peking) in the People's Republic of China. Headed by a Senior Representative, this new office provides a valuable link for Canadian businessmen in the conduct of their affairs in China, where opportunities exist for venture participation, joint production, the sale of special technology and general bilateral trade.

Our ability to do business in the area has been enhanced by the appointment of a Vice-President for the Asia-Pacific Region, based in Hong Kong, as well as the upgrading of our representative office in Tokyo to the status of a full branch.

In Europe, we have strengthened the professional staff of our investment and merchant banking subsidiary, CIBC Limited, London, with emphasis on providing increased assistance to our Canadian and international clients in gaining access to world capital markets. We have also extended our capabilities in energy- and resource-related project financing and export financing. We propose to broaden these facilities in other group offices in important European financial centres during 1982.

In response to increasing competition, we have undertaken an overall reassessment of our international operations, and those of our subsidiaries and affiliates. This has resulted in the identification of several growth areas: for example, the reorganization and enhancement of our international trust facilities; increased commitment of capital and manpower to our international merchant banking operations in Australia, the Far East and Europe; and increasing co-ordination of these activities on a global scale.

There is no question that the pressure of international competition increased during 1981, particularly on the part of banks from the Far East and Middle East. Interest margins have declined and concurrently, there has been a deterioration in international credit risks, especially in some Less Developed Countries.

Despite these negative factors, the Commerce has succeeded in meeting its targets of profitability as measured by returns on international assets.

Turning to the other side of the coin, we saw for the first time in 1981 the establishment of subsidiaries of international

Clarence W. Cole, *Executive Vice-President, Treasury*

banks in Canada. We welcome the arrival of world class banks; they will certainly provide an interesting dimension to our financial community. The different perspectives they are bringing to the marketplace are bound to enrich our economic environment.

We are a Canadian bank and our priority is to serve Canadian customers. Accordingly, our domestic business will remain the core of our operations. At the same time, we intend to pursue international business because it is important to our overall progress and our international sector will continue to contribute to the Bank's profits in a growing proportion.

CORPORATE COMMUNICATIONS

A year ago at this meeting we introduced a pioneering policy statement on Social Responsibility and Corporate Conduct. To date, some 135,000 copies have been printed to meet demand from our personnel, shareholders, customers, institutions, corporations, the media and the general public. The publication has been officially commended by the Institute of Chartered Secretaries and Administrators as (and I quote) "an example for all business to follow." We are, of course, gratified by such a positive response.

Another initiative that has been exceptionally well received is Spectrum (Tribune in French), a periodical publication we founded just two years ago. This journal of opinion has proven to be a lively forum for the discussion of important issues by distinguished Canadians and its readership now exceeds 250,000 in Canada and abroad.

ECONOMIC OUTLOOK

As always, the Bank's plans and programs for the immediate future must be set within the broader framework of our country's economy and that of the world at large.

The "gradualist" approach to economic policy, favoured by our federal government, is intended to result in a smoother, more predictable functioning of our economy. In fact, however, the opposite has been the case: witness the problems of adjustment for the financial institutions and for business in general over the past two years.

You will recall that the economy of Canada suffered a recession during the first half of 1980, followed by an acceleration of activity in the second half. In 1981, the pattern was reversed: we experienced fairly satisfactory growth during the first half, followed by recessionary conditions. This stop-go, up-and-down pattern is quite different from the more prolonged economic downturns and recoveries we used to experience in earlier periods. I believe it underlines the comment I made a year ago to the effect that we were entering a period of increasingly rapid change and mounting turbulence. I would, therefore, stress once again the importance of being able to respond quickly and effectively to changing conditions.

I must say that I see no reason to suppose that we will return to a more settled pattern of economic behaviour within the

A. Warren Moysey, *Executive Vice-President, International*

foreseeable future. At this moment it appears likely that our economy will remain weak through the early part of this year, picking up momentum about mid-year. However, because of the lingering problem of inflation and continued uncertainty on the international scene, any such recovery is likely to be modest. Of course, much will depend on the outcome of the present policy experiment in the United States, which is characterized by a combination of monetary discipline, tax reductions, reduced civilian government expenditure and increased military outlays. The results to date are far from conclusive; however, in view of the conflicting forces at work, it will not surprise me if we continue to see economic and financial volatility in the United States.

Overseas, there are similar economic cross-currents. Some countries, such as Britain, are attempting to overcome inflationary forces by means of severe policy restraint; others, such as France, have decided to place more emphasis on economic stimulus and state intervention than on the fight for price stability. Still other nations—West Germany and Japan among them—continue the pursuit of cautious anti-inflationary policies which permit them to remain "islands of stability" in an otherwise disturbed environment.

Against this global background, Canada's prospects remain relatively uncertain. They tend to be characterized by uneven growth, an almost unchanged rate of inflation, and financial market volatility of a kind that must strain the ingenuity of even the most astute corporate treasurer.

Finally, we must face the fact that—despite the trend towards an improved matching of assets and liabilities, and floating-rate arrangements—our chartered banks will not be immune to this volatility, which has the unfortunate effect of leading to rapid asset growth while complicating the task of adding to capital.

THE CONSTITUTIONAL SETTLEMENT

In one notable respect, 1981 was a landmark year in the history of Canada—a year which saw the federal and provincial first ministers hammer out an apparent solution to the long-drawn-out constitutional impasse. It is, of course, obvious that this solution was a compromise that leaves much to be desired.

It remains to be seen whether the constitutional formula will work—whether it will have the effect of bringing the disparate regions of our country closer together or driving them further apart. Not long ago the people of Quebec gave a resounding "No" to the separatist option, and we earnestly hope that they will continue to hold this view despite the risk of deepening disillusion as a result of the constitutional debate.

Whatever our doubts may be about the validity of the compromise settlement, I believe we must all put our sense of Canadian identity first and make a concerted effort to mobilize the many resources with which this nation is blessed. Only then can we move forward together with confidence and purpose.

Financial Highlights

	1981	1980
Earnings and Dividends for the Fiscal Year		
Balance of revenue after income taxes ($ thousands)	**$310,185**	$192,056
Earnings per share—basic (Note 1)	**$7.53**	$4.90
—fully diluted (Note 2)	**$6.95**	$4.90
Return on average total assets	**0.51%**	0.38%
Return on average shareholders' equity	**18.3%**	14.2%
Dividends paid ($ thousands)		
—common shares	**$ 74,471**	$ 70,551
—preferred shares	**$ 14,760**	—
Dividends per common share	**$1.90**	$1.80
Financial Position at Year End ($ millions)		
Total assets	**$ 66,845**	$ 55,428
Loans	**$ 43,826**	$ 33,830
Deposits	**$ 57,209**	$ 48,551
Accumulated appropriations for losses	**$ 403**	$ 362
Debentures	**$ 582**	$ 462
Shareholders' equity	**$ 1,610**	$ 1,111
Other Statistics at Year End		
Number of shareholders	**32,537**	32,602
Number of employees	**36,665**	36,713
Number of branches	**1,710**	1,801

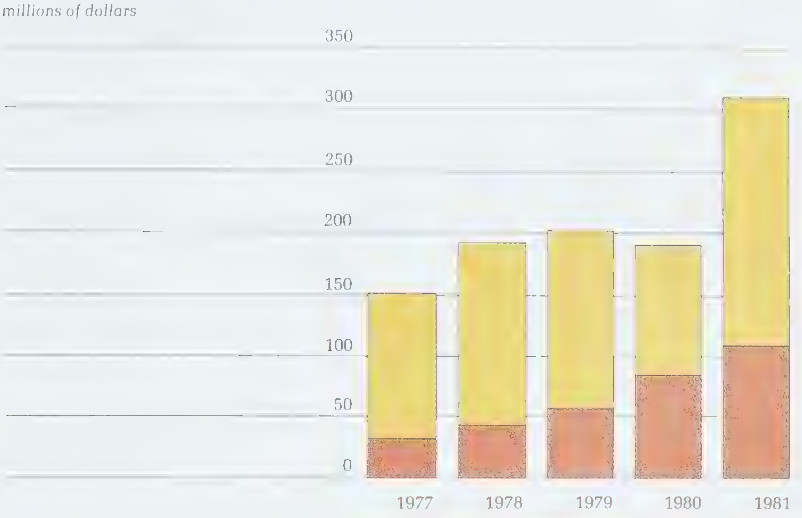
Note 1. Earnings per share have been calculated on the daily average equivalent of fully paid shares outstanding, which for the year ended October 31, 1981 were 39,196,045 (1980—39,195,000).

2. Fully diluted earnings per share are calculated on the daily average number of common shares which would have been outstanding if all the Class B Preferred Shares had been converted and all outstanding warrants exercised.

Financial Review

Figure 1

Balance of Revenue After Income Taxes
millions of dollars



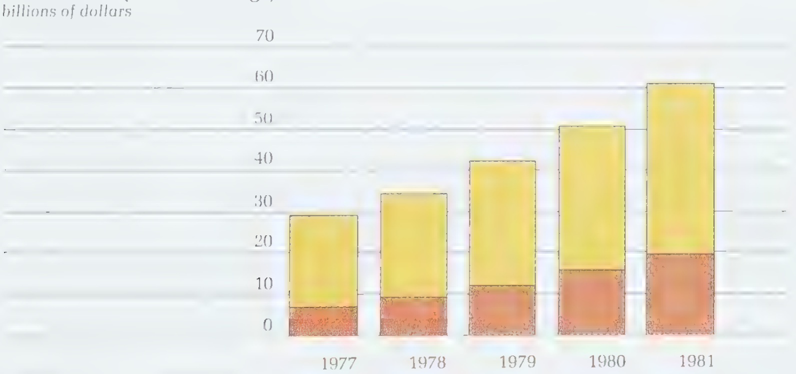
millions of dollars					
Domestic	$116.8	$152.3	$144.3	$107.5	$199.7
International	33.8	41.2	57.0	84.6	110.5
Total Bank	$150.6	$193.5	$201.3	$192.1	$310.2
in dollars					
Per share—fully diluted	$4.32	$5.33	$5.14	$4.90	$6.95

Balance of Revenue After Income Taxes
Balance of revenue after tax for 1981 grew by 62% over 1980 to $310 million. The improvement was largely the result of increased interest margins and tighter control over operating expenses. Domestic operations' profit improved substantially from the depressed level of 1980, rising by $92.2 million to $199.7 million. International operations' profit was up for the fifth consecutive year, increasing $25.9 million or 31% to $110.5 million.

Earnings per common share were $6.95 for 1981, on a fully diluted basis, that is assuming conversion to common shares of all the Class B Preferred Shares issued in February 1981 and the exercise of all outstanding warrants.

Figure 2

Total Assets (annual average)
billions of dollars



billions of dollars						5 year growth rate
Domestic	$21.5	$24.9	$29.9	$34.8	$42.1	18%
International	7.3	9.6	12.2	15.8	18.8	26%
Total Bank	$28.8	$34.5	$42.1	$50.6	$60.9	20%

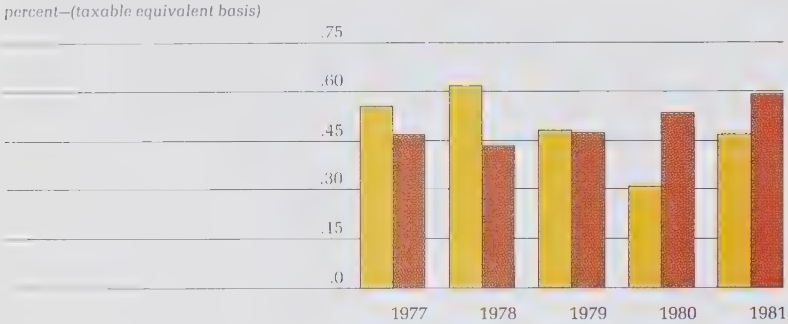
Total Assets (annual average)
Average total assets grew by $10.3 billion in 1981. This was an increase of 20.3%, marginally higher than the 20.2% recorded the previous year.

In 1981, Domestic assets increased at a greater rate (21%) than International assets (19%). This primarily reflects the growth in corporate loans as well as the expansionary effect of inflation on Domestic assets. But the five-year growth rate (26%) in International remains higher than its Domestic equivalent (17%).

Total assets at October 31, 1981 were $66.8 billion.

Figure 3

Return on Average Total Assets
percent—(taxable equivalent basis)



percent	1977	1978	1979	1980	1981
Net interest margin	2.89%	2.90%	2.65%	2.41%	2.68%
Provision for loan losses	(0.22)	(0.25)	(0.25)	(0.32)	(0.34)
	2.67%	2.65%	2.40%	2.09%	2.34%
Other operating revenue	0.60	0.58	0.59	0.61	0.57
	3.27%	3.23%	2.99%	2.70%	2.91%
Operating expenses	(2.25)	(2.12)	(2.05)	(1.95)	(1.87)
Balance of revenue before income taxes	1.02%	1.11%	0.94%	0.75%	1.04%
Provision for income taxes	(0.50)	(0.55)	(0.46)	(0.37)	(0.53)
Balance of revenue after income taxes:					
Total Bank	0.52%	0.56%	0.48%	0.38%	0.51%
Domestic	0.54%	0.61%	0.48%	0.31%	0.47%
International	0.46%	0.43%	0.47%	0.53%	0.59%

Return on Average Total Assets

The after-tax return on assets, relating operating profitability to business volumes, is widely used as a measure of banking performance.

In 1981 total balance of revenue after taxes per $100 of average total assets was 51 cents, an increase of 13 cents over 1980. This compares to the five-year average return of 48 cents.

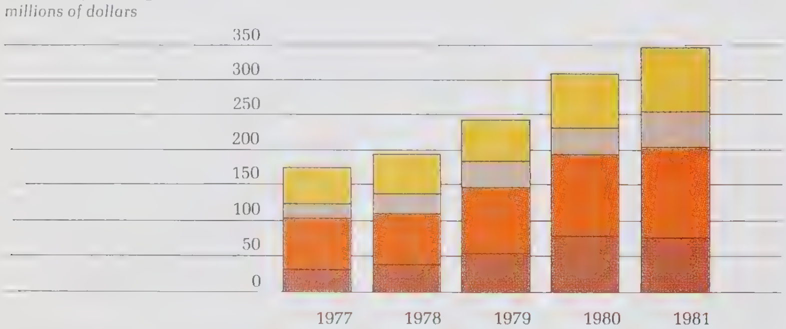
Domestic operations return on assets increased from 31 cents in 1980 to 47 cents in 1981, in line with the five-year average.

In International operations the return on assets increased from 53 cents in 1980 to 59 cents in 1981, well above the five-year average of 51 cents.

It is encouraging that operating expenses continued to decline as a percentage of assets.

Figure 4

Other Operating Revenue
millions of dollars



millions of dollars	1977	1978	1979	1980	1981	5 year growth rate
Domestic						
Service charges	$ 53.3	$ 57.8	$ 69.0	$ 78.9	$ 90.8	13%
Visa	17.5	23.7	32.0	39.8	49.7	30
Other	66.5	75.3	95.7	113.4	131.5	16
	$137.3	$156.8	$196.7	$232.1	$272.0	17%
International	37.5	42.1	52.1	77.9	77.4	15
Total Bank	$174.8	$198.9	$248.8	$310.0	$349.4	16%

Other Operating Revenue

Other operating revenue totalled $349 million in 1981, an increase of 13% or $39 million over 1980.

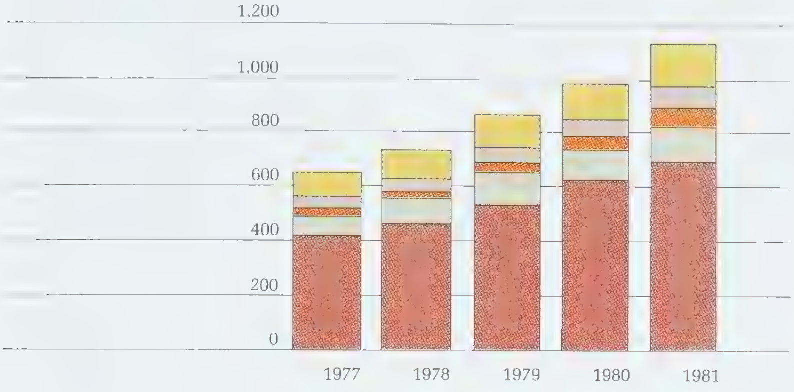
Domestic operating revenues improved by 17% over 1980, while International operating revenue declined slightly.

In Domestic operations, revenue earned on Commerce Visa was up 25% over 1980, reflecting growth in retail sales. All other revenue was up approximately 16%, largely due to increased service charges and loan fees.

International operations revenue includes earnings on gold and silver transactions. Activity in this area during 1981 did not reach the unusual highs of the previous year and was the main factor in international revenues falling below those of 1980.

Figure 5

Operating Expenses (excluding provision for loan losses)
millions of dollars



millions of dollars						5 year growth rate
Personnel costs	$419.8	$465.1	$546.8	$627.9	$708.6	15%
Property expenses	78.9	90.2	103.5	112.4	129.8	15
Computer, mechanical equipment	24.5	30.1	42.9	53.0	64.6	25
Communication, transport	41.0	46.6	58.2	64.3	72.6	15
Other expenses	84.8	99.7	110.0	130.3	163.7	16
Total expenses	$649.0	$731.7	$861.4	$987.9	$1139.3	15%

Operating Expenses

Personnel costs, including remuneration and benefits, increased 13% over 1980, somewhat less than the five-year average of 15%. This reflects the Bank's continuing emphasis on tight cost control as well as the effect of its branch rationalization program.

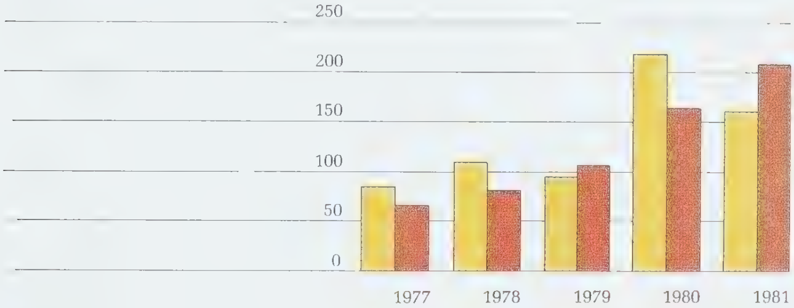
Property expenses—maintenance and repairs, taxes, depreciation—increased 15% over 1980. Computer-related and mechanical equipment expenses rose 22% over 1980.

Communication expenses—telephones, telex, postage and transport-related costs—climbed 13% over 1980.

Other expenses—including such operating expenses as stationery, business taxes and publicity expenses—were up 26% in 1981.

Figure 6

Loan Loss Experience
millions of dollars



millions of dollars					
Loss experience on loans for the year	$ 86.1	$107.8	$ 97.0	$218.5	$160.3
Provision for loan losses included in operating expenses of the year	64.4	84.9	106.4	163.3	207.6
Eligible loans outstanding	$17,523	$19,788	$24,981	$31,882	$42,292
Loan loss experience for the year —as percentage of eligible loans	0.49%	0.55%	0.39%	0.69%	0.38%

Note:
Eligible loans are as prescribed by the rules of the Minister of Finance and include letters of credit, acceptances and guarantees, but exclude loans to or guaranteed by the governments of Canada, the Provinces, the United States and the United Kingdom, and also exclude loans to or deposits with other banks.

Loan Loss Experience

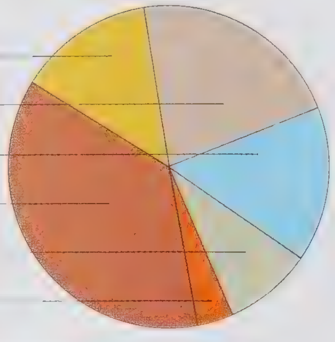
Loan loss experience—the sum of loans written off and new or additional specific provisions against doubtful loans less recoveries and reversal of specific provisions no longer required—totalled $160.3 million in 1981. While this is $58.2 million less than the previous year, the 1980 loss experience included a specific provision of $100 million against the loans to a single borrower. Expressed as a proportion of eligible loans, the loss experience was .38%, the best performance in the past five years.

The provision for loan losses is calculated in accordance with a formula prescribed by the Minister of Finance. This formula takes into account the average ratio of loss experience to eligible loans over the past five years and this is applied to the eligible loans outstanding at the end of the year. The average ratio for the five years to 1981 of .49% was slightly down from the 1980 figure of .51% but eligible loans were higher at the end of 1981 resulting in a provision of $207.6 million, an increase of $44.3 from the previous year.

Figure 7

Canadian Currency Loans
as at September 30, 1981

	billions	
Residential mortgages	$ 4.1	13.4%
Personal	6.5	21.1
Business loans —under $1 million	4.7	15.2
Business loans —$1 million and over	11.4	37.0
Agricultural loans	2.8	9.1
Other loans	1.2	4.2
Total	$30.7	100.0%



Canadian Currency Loans

Figure 7 shows the distributions at September 30, 1981 of Canadian dollar loans, almost all of which are assets of the Bank's Domestic operations.

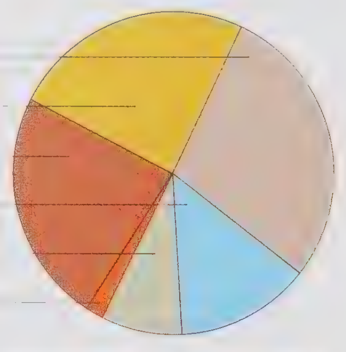
In addition to the residential mortgages on the books of the Bank, the Bank's mortgage lending subsidiary, Kinross Mortgage Corporation, carried mortgages totalling $2.2 billion at October 31, 1981, an increase of $1 billion from the previous year.

Under the new Bank Act, the accounts of Kinross Mortgage Corporation will be consolidated with those of the Bank from the 1982 fiscal year onwards.

Figure 8

Geographic Distribution of Major Foreign Currency Assets
(By location of ultimate risk)
as at September 30, 1981

	billions	
United States	$ 5.9	28.9%
Canada	5.1	24.9
Europe	4.9	24.3
Latin America and Caribbean	2.7	13.2
Asia and Pacific	1.5	7.3
Middle East and Africa	0.3	1.4
Total	$20.4	100.0%



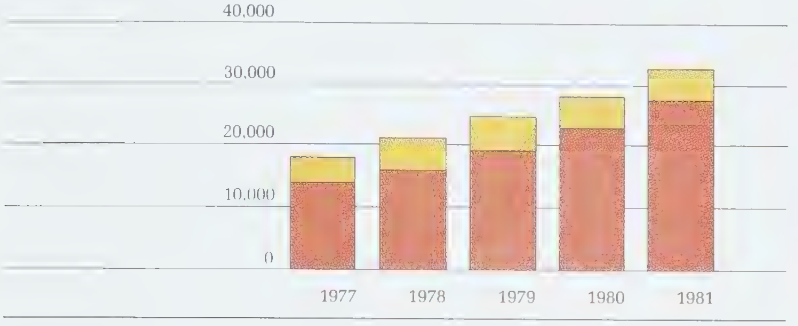
Distribution of Foreign Currency Assets

In these volatile times, the Bank follows a policy of closely watching the growth and distribution of its foreign currency assets. As at September 30, 1981 more than $20 billion of foreign currency assets were employed in various parts of the world.

More than 53% or $10.8 billion of these assets were at work in the United States and Europe. The Latin American and Caribbean regions accounted for $2.7 billion and showed the fastest growth on a year-to-year basis.

Figure 9

Canadian Currency Deposits (annual average)
millions of dollars



millions of dollars						1981 % mix
Current accounts	$ 2,319	$ 2,453	$ 2,492	$ 2,391	$ 2,504	7.7%
Chequing accounts	1,595	1,671	1,655	1,521	1,433	4.4
Other	817	910	966	1,015	1,108	3.4
Low-cost deposits	$ 4,731	$ 5,034	$ 5,113	$ 4,927	$ 5,045	15.5%
Savings	5,543	6,179	6,777	8,160	9,985	30.7
Term	7,490	8,730	11,302	13,873	15,288	47.0
Other	980	1,475	1,641	1,383	2,198	6.8
High-cost deposits	$14,013	$16,384	$19,720	$23,416	$27,471	84.5%
Total	$18,744	$21,418	$24,833	$28,343	$32,516	100.0%

Canadian Dollar Deposits (annual average)

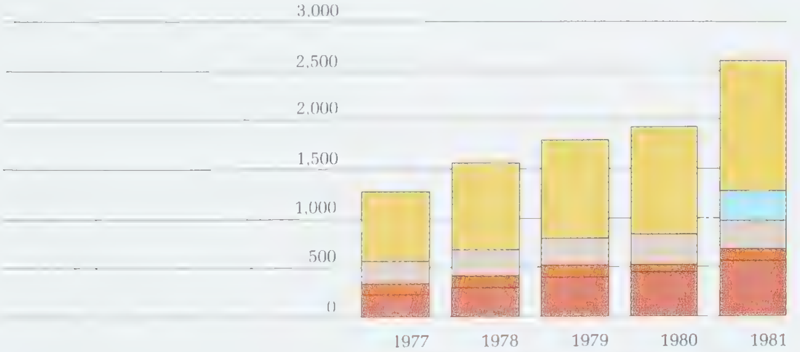
Total Canadian dollar deposits increased by $4.2 billion or 14.7% over 1980.

Virtually all of this growth was accounted for by high-cost deposits. In contrast, low-cost deposits experienced a marginal growth rate, and now represent only 15.5% of total Canadian dollar deposits, as opposed to some 25% five years ago.

During the year, as interest rates rose to an all-time high, depositors have sought to maximize their return on investments, moving their funds from relatively low rate chequing and current accounts into the high-yielding savings accounts and term deposit instruments.

Figure 10

Capital Funds (year end balance)
millions of dollars



millions of dollars					
Common share capital, Rest account and Undivided profits	$ 711.3	$ 910.5	$1,039.7	$1,111.2	$1,309.6
Preferred share capital	—	—	—	—	300.0
Tax-paid appropriations	212.6	250.1	253.9	301.6	287.8
Shareholders' Equity	$ 923.9	$1,160.6	$1,293.6	$1,412.8	$1,897.4
General appropriations	119.7	106.2	108.4	60.1	114.9
Debentures	225.0	300.0	400.8	462.3	582.0
Total capital and appropriations	$1,268.6	$1,566.8	$1,802.8	$1,935.2	$2,594.3
Return on shareholders' equity	17.1%	18.6%	16.4%	14.2%	18.3%

Capital Funds

The Bank increased its capital base by $659 million in 1981. This was the result of internally generated equity in the form of retained earnings, together with the issue of preferred share capital and additional debentures.

In February, 1981 the Bank issued $225 million of Class B convertible preferred shares and in August a further $75 million of Class A preferred shares. In addition, $100 million in U.S. dollar subordinated debentures was issued in October.

The return on shareholders' equity for 1981 was 18.3%, the second highest rate in the past five years.

CANADIAN IMPERIAL
BANK OF COMMERCE

Statement of Assets and Liabilities

as at October 31, 1981

ASSETS	1981	1980
Cash and due from banks	**$ 8,281,479,662**	$10,229,090,822
Cheques and other items in transit, net	**917,397,413**	632,920,989
Total cash resources	**9,198,877,075**	10,862,011,811
Securities issued or guaranteed by Canada, at amortized value	**2,527,535,996**	2,304,945,388
Securities issued or guaranteed by provinces, at amortized value	**53,270,220**	43,933,697
Other securities, not exceeding market value	**2,192,344,015**	2,353,496,659
Total securities	**4,773,150,231**	4,702,375,744
Day, call and short loans to investment dealers and brokers, secured	**234,073,590**	851,597,319
Other loans, including mortgages, less provision for losses	**43,591,574,185**	32,978,619,413
Total loans	**43,825,647,775**	33,830,216,732
Bank premises at cost, less amounts written off	**459,712,418**	400,084,493
Securities of and loans to corporations controlled by the bank	**2,005,672,459**	1,224,952,797
Customers' liability under acceptances, guarantees and letters of credit, as per contra	**6,490,511,109**	4,343,654,886
Other assets	**91,049,702**	64,930,466
	$66,844,620,769	$55,428,226,929

See Notes to the Financial Statements

Auditors' Report to the Shareholders

We have examined the statement of assets and liabilities of Canadian Imperial Bank of Commerce as at October 31, 1981 and the statements of revenue, expenses and undivided profits, accumulated appropriations for losses and rest account for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Toronto, December 1, 1981.

LIABILITIES	1981	1980
Deposits by Canada	**$ 867,982,647**	$ 799,474,328
Deposits by provinces	**384,431,500**	622,025,158
Deposits by banks	**13,816,684,051**	12,133,618,264
Personal savings deposits payable after notice, in Canada, in Canadian currency	**20,788,064,930**	17,356,174,953
Other deposits	**21,351,746,783**	17,640,121,284
Total deposits	**57,208,909,911**	48,551,413,987
Acceptances, guarantees and letters of credit	**6,490,511,109**	4,343,654,886
Other liabilities	**550,976,617**	598,006,744
Accumulated appropriations for losses	**402,653,379**	361,703,520
Capital Funds:		
Debentures issued and outstanding (Note 5)	**581,995,000**	462,277,000
Capital (Note 6)	**378,580,794**	78,390,000
Rest account	**1,228,068,645**	1,030,810,000
Undivided profits	**2,925,314**	1,970,792
Total capital funds	**2,191,569,753**	1,573,447,792
	$66,844,620,769	$55,428,226,929

R. E. HARRISON
Chairman
and Chief Executive Officer

R. D. FULLERTON
Vice Chairman
and President

In our opinion, the foregoing statements present fairly the financial position of the Bank as at October 31, 1981 and the revenue, expenses and undivided profits, accumulated appropriations for losses and transactions in the rest account of the Bank for the year ended on that date.

Peat, Marwick, Mitchell & Co.
Clarkson Gordon
Auditors

Statement of Revenue, Expenses and Undivided Profits

For the financial year ended October 31, 1981

	1981	1980
Revenue:		
Income from loans	**$8,072,543,059**	$5,403,545,781
Income from securities	**562,078,705**	442,630,944
Other operating revenue	**349,431,035**	310,049,418
Total revenue	**8,984,052,799**	6,156,226,143
Expenses:		
Interest on deposits and bank debentures	**7,217,340,346**	4,794,205,877
Salaries, pension contributions and other staff benefits	**708,572,480**	627,867,007
Property expenses, including depreciation	**194,404,137**	165,413,418
Other operating expenses, including provision for losses on loans based on five-year average loss experience (Note 2)	**443,950,814**	357,983,478
Total expenses	**8,564,267,777**	5,945,469,780
Balance of revenue	**419,785,022**	210,756,363
Provision for income taxes relating thereto (Note 3)	**109,600,000**	18,700,000
Balance of revenue after provision for income taxes	**310,185,022**	192,056,363
Appropriation for losses	**20,000,000**	50,000,000
Balance of profits for the year	**290,185,022**	142,056,363
Dividends (Note 4)	**89,230,500**	70,551,000
Amount carried forward	**200,954,522**	71,505,363
Undivided profits at beginning of year	**1,970,792**	465,429
	202,925,314	71,970,792
Transferred to rest account	**200,000,000**	70,000,000
Undivided profits at end of year	**$ 2,925,314**	$ 1,970,792

Statement of Accumulated Appropriations for Losses

For the financial year ended October 31, 1981

	1981	1980
Accumulated appropriations at beginning of year:		
General	**$ 60,097,240**	$ 108,400,966
Tax-paid	**301,606,280**	253,909,759
Total	**361,703,520**	362,310,725
Appropriation from current year's operations	**20,000,000**	50,000,000
Excess of provision for losses on loans, included in other operating expenses, over loss experience on loans for the year (Note 2)	**47,283,530**	(55,151,737)
Profits and losses on securities, including provisions to reduce securities other than those of Canada and provinces to values not exceeding market	**(40,720,690)**	(2,189,491)
Other profits, losses and non-recurring items, net	**237,019**	2,034,023
Provision for income taxes, including credit of $14,500,000 (1980 $6,100,000) related to appropriation from current year's operations (Note 3)	**14,150,000**	4,700,000
Accumulated appropriations at end of year	**$ 402,653,379**	$ 361,703,520
Accumulated appropriations at end of year:		
General	**$ 114,862,678**	$ 60,097,240
Tax-paid	**287,790,701**	301,606,280
Total	**$ 402,653,379**	$ 361,703,520

See Notes to the Financial Statements

Statement of Rest Account

For the financial year ended October 31, 1981

	1981	1980
Balance at beginning of year	**$1,030,810,000**	$ 960,810,000
Premium on issue of common shares (Note 6)	**2,509,901**	—
Expenses of issue of preferred shares (net of income taxes of $5,600,000—Note 3)	**(5,251,256)**	—
Transfer from undivided profits	**200,000,000**	70,000,000
Balance at end of year	**$1,228,068,645**	$1,030,810,000

See Notes to the Financial Statements

Notes to the Financial Statements

1. The following is a summary of the significant accounting policies:

Bank Act

The Bank Act and the regulations issued thereunder stipulate the form and content of the financial statements and the significant accounting policies to be followed.

Basis of Consolidation

The financial statements include the assets and liabilities and results of operations of all wholly-owned banking subsidiaries on a consolidated basis. The subsidiaries so included are:

California Canadian Bank

Bank of Commerce Jamaica Limited

Canadian Imperial Bank of Commerce Trust Company, New York

Canadian Imperial Bank of Commerce (Asia) Limited

Investments in shares of non-consolidated subsidiaries are accounted for on a cost basis and income from such investments is recognized when dividends are declared. The Condensed Statements of Assets and Liabilities of non-consolidated subsidiaries are presented separately following these notes.

Securities

Securities held for investment, issued or guaranteed by Canada and the provinces, are recorded at cost, adjusted for the amortization of premiums or accretion of discounts to maturity. Other investment securities are grouped into specified categories and each category is carried at the lower of cost or market. Securities held for trading are recorded at market.

Gains and losses on disposals and adjustments to market of securities held for investment are included in the Statement of Accumulated Appropriations for Losses. Gains and losses on securities held for trading are included in Income from securities in the Statement of Revenue, Expenses and Undivided Profits.

Loans

Loans include accrued interest where applicable and are stated net of any unearned income and of any specific provisions established to recognize anticipated losses.

The net loss experience on loans for a year comprises the amount of loans written off and the current year's specific provisions for doubtful loans, less recoveries and prior years' specific provisions no longer required. This amount is charged to the Statement of Accumulated Appropriations for Losses.

The provision for losses on loans included in other operating expenses and credited to the Statement of Accumulated Appropriations for Losses is an amount determined by computing the weighted average ratio of net loan loss experience to eligible loans outstanding for the current and four preceding years and applying this five-year average ratio to the outstanding eligible loans for the current financial year.

Bank Premises

Depreciation on bank premises is computed using varying rates which allocate the cost of the assets over their expected useful lives. Gains and losses on disposals are included in the Statement of Accumulated Appropriations for Losses.

Acceptances, Guarantees and Letters of Credit

The Bank's liability under acceptances, guarantees and letters of credit is reported as such and its recourse against the customer in the case of a call on any of these commitments is reported as an asset of the same amount.

Accumulated Appropriations for Losses

An appropriation is made out of earnings each year to provide for losses of which management is not yet aware, but which may be incurred on realization of existing loans together with possible losses on securities and other assets. This yearly appropriation together with the transactions described in this note under Securities, Loans, Bank Premises and Foreign Currency Translation, together with other prescribed gains and losses and non-recurring items, constitute Accumulated Appropriations for Losses.

1. *(continued)*

Foreign Currency Translation

Except for land and premises of foreign branches, which are translated at historical rates, assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the date of the financial statements. Revenue and expenses are translated at the average exchange rates prevailing throughout the year.

Realized and unrealized gains and losses on foreign currency positions held in the Bank's trading account are reported in other operating revenue. Realized gains and losses and unrealized losses on positions of a capital nature are included in the Statement of Accumulated Appropriations for Losses; unrealized gains are deferred.

Pension Costs

In accordance with statutory requirements, periodic actuarial valuations are made of the Bank's pension plans. The last actuarial valuations under the Pension Benefits Standards Act were filed in 1981 and these valuations indicated that the plans were fully funded as at October 31, 1980.

2. Loss experience on loans, and the provision included in other operating expenses in the Statement of Revenue, Expenses and Undivided Profits, are as follows:

	1981	1980
Net loss experience on loans for the year	**$ (160,316,567)**	$ (218,464,430)
Provision for losses on loans, included in other operating expenses, based on a formula which takes into account the average loss experience over the past five years	**207,600,097**	163,312,693
Net amount added to (deducted from) Accumulated Appropriations for Losses	**$ 47,283,530**	$ (55,151,737)

3. Provisions for income taxes are included in the financial statements as follows:

	1981	1980
Statement of Revenue, Expenses and Undivided Profits	**$ 109,600,000**	$ 18,700,000
Statement of Accumulated Appropriations for Losses	**(14,150,000)**	(4,700,000)
Rest Account	**(5,600,000)**	–
	$ 89,850,000	$ 14,000,000

4. Dividends declared during the year are as follows:

	1981	1980
Class A Preferred Shares Series 1	**$ 1,485,000**	$ –
Class B Preferred Shares Series 1	**13,275,000**	–
	14,760,000	–
Common Shares	**74,470,500**	70,551,000
	$ 89,230,500	$ 70,551,000

5. Debentures issued and outstanding comprise:

	1981	1980
(a) 7¼% Debentures maturing December 15, 1992	**$ 756,000**	$ 822,000
(b) 7½% Debentures maturing May 15, 1993	**1,249,000**	1,455,000
(c) 9¾% Debentures maturing January 2, 1995 (the holder of any debenture may elect that such debenture mature on January 2, 1985)	**75,000,000**	75,000,000
(d) 9½% Debentures maturing October 15, 1996 (the holder of any debenture may elect that such debenture mature on October 15, 1986)	**50,000,000**	50,000,000
(e) 9¼% Debentures maturing February 15, 1998 (the holder of any debenture may elect that such debenture mature on February 15, 1988)	**75,000,000**	75,000,000
(f) 10.10% Debentures maturing June 15, 1984	**100,000,000**	100,000,000
(g) Floating Rate Debentures maturing July 15, 1989 (the debentures bear interest at a rate equal to the average prime rate of the Bank less ⅝ of 1%)	**50,000,000**	50,000,000
(h) 13½% Debentures maturing May 15, 1985	**50,000,000**	50,000,000
(i) 11½% Debentures maturing July 15, 1985	**60,000,000**	60,000,000
(j) 16¾% Debentures maturing October 15, 1991 (U.S. $100,000,000)	**119,990,000**	–
	$ 581,995,000	$ 462,277,000

Notes to the Financial Statements (continued)

6. The Capital of the Bank:

Authorized:

Preferred Shares authorized in 1981:

30,000,000—Class A without par value which may be issued for an aggregate consideration not exceeding $750,000,000.

30,000,000—Class B without par value which may be issued for an aggregate consideration not exceeding $750,000,000.

Common Shares:

62,500,000—with a par value of $2 each.

Issued and fully paid up:	Shares		Amount	
	1981	1980	**1981**	1980
Class A Preferred Shares Series 1, issued for cash	**3,000,000**	Nil	**$ 75,000,000**	$ —
Class B Preferred Shares Series 1, issued for cash	**9,000,000**	Nil	**225,000,000**	—
			$300,000,000	$ —
Common Shares:				
At beginning of year	**39,195,000**	39,195,000	**$ 78,390,000**	$ 78,390,000
Issued during the year	**95,397**	—	**190,794**	—
At end of year	**39,290,397**	39,195,000	**$ 78,580,794**	$ 78,390,000
Total Capital Stock			**$378,580,794**	$ 78,390,000

Share rights and privileges:

Class A Preferred Shares Series 1

These shares bear cumulative $2.50 dividends and are redeemable by the Bank after August 20, 1986 at the issue price of $25 per share. The holder may elect on or before July 20, 1987 to redeem these shares on August 20, 1987 at a price of $25 per share.

Class B Preferred Shares Series 1

These shares bear cumulative $2.05 dividends and are convertible at the option of the holder at any time prior to the close of business on February 15, 1991 or the 5th business day prior to the date fixed for redemption of such shares, whichever is earlier, into Common Shares of the Bank at a conversion price of $32.75 per Common Share.

These shares are not redeemable before February 15, 1983. Thereafter, the shares are redeemable at the option of the Bank providing that the Bank's Common Shares have traded on a formula basis at not less than 125% of the conversion price. Subject to the foregoing, the redemption price for the period February 15, 1983 to February 14, 1986 would be $26.25 reducing thereafter by 25 cents annually to $25 on February 15, 1990 and thereafter.

Dividend Reinvestment and Share Purchase Plan and Stock Dividend Program

Commencing with the dividend payable to shareholders of record on September 28, 1981, shareholders, resident in Canada, have the right to reinvest Class B Preferred Shares Series 1 and Common Share dividends in new Common Shares at a price of 95% of average market price. Each such shareholder also has the right to purchase new Common Shares at 100% of the average market price, subject to a limit of $5,000 per quarter. All shareholders having at least 100 shares of Class B Preferred Shares Series 1 or Common Shares have the right to receive dividends in the form of new Common Shares at a price of 95% of the average market price.

On October 28, 1981, pursuant to the above-mentioned Plan and Program, new Common Shares were issued as follows:

				Added to:	
	Shares	Issue Price	Total Proceeds	Capital Stock	Rest Account
Share purchase	**7,654**	**$29.675**	**$ 227,132**	**$ 15,308**	**$ 211,824**
Dividend reinvestment	**62,212**	**$28.191**	**1,753,819**	**124,424**	**1,629,395**
Stock dividend	**25,531**	**$28.191**	**719,744**	**51,062**	**668,682**
	95,397		**$2,700,695**	**$190,794**	**$2,509,901**

Shares reserved for issue:

Pursuant to various provisions 12,774,832 Common Shares have been reserved for issue as follows:

(i) 6,870,229 on conversion of Class B Preferred Shares Series 1.

(ii) 3,000,000 on the exercise of Common Shares Purchase Warrants, issued to holders of record on September 7, 1981 of the Class A Preferred Shares Series 1, at an exercise price of $33.25 per share, on or before August 20, 1986.

(iii) 2,904,603 pursuant to the Dividend Reinvestment and Share Purchase Plan and Stock Dividend Program.

Condensed Statements of Assets and Liabilities of Controlled Corporations

BANK OF COMMERCE TRINIDAD AND TOBAGO LIMITED

Including its wholly-owned subsidiary company (as at August 31, 1981—in Trinidad and Tobago Dollars)

ASSETS		LIABILITIES		
Cash and due from banks	$ 85,013,932	Canadian Imperial Bank of Commerce		$ 19,220,673
Securities	48,856,400	Deposits		556,250,867
Loans	464,772,774	Cheques and other items in transit, net		7,259,694
Fixed assets less depreciation	21,247,833	Acceptances, guarantees and letters of credit		29,822,123
Customers' liability under acceptances, guarantees and letters of credit	29,822,123	Other liabilities		12,181,530
		Capital	$18,392,637	
		Share premium	5,940,343	
Other assets	3,482,070	Retained earnings	4,127,265	28,460,245
	$653,195,132			$653,195,132

The Bank owns 70% of the capital stock of Bank of Commerce Trinidad and Tobago Limited, which at August 31, 1981 was carried on the books of the Bank at T & T $5,477,337 (Can. $2,747,432). The aggregate minority interest in the capital, share premium and retained earnings of Bank of Commerce Trinidad and Tobago Limited as at August 31, 1981 was T & T $8,538,074 (Can. $4,282,698).

C.I.B.C. FINANCE B.V.

Including its wholly-owned subsidiary companies (as at August 31, 1981—in Netherlands Guilders)

ASSETS		LIABILITIES		
Cash and due from banks	ƒ. 493,967,318	Canadian Imperial Bank of Commerce		ƒ.1,848,506,275
Securities	106,467,499	Deposits		86,489,784
		Bank loans		5,044,824
Loans	1,401,663,030	Other liabilities		19,469,259
Fixed assets less depreciation	8,129,968	Capital	ƒ.37,000,000	
		Capital reserve	7,091,551	
Other assets	10,600,793	Retained earnings	17,226,915	61,318,466
	ƒ.2,020,828,608			ƒ.2,020,828,608

The Bank owns the entire capital stock of C.I.B.C. Finance B.V., which at August 31, 1981 was carried on the books of the Bank at ƒ.37,000,000 (Can. $16,283,700).

MARTIN CORPORATION GROUP LIMITED

Including its wholly-owned subsidiary companies (as at August 31, 1981—in Australian Dollars)

ASSETS		LIABILITIES		
Cash, money at call and due from banks	$ 30,454,238	Deposits		$197,708,997
		Bank loans		7,049,815
Securities	129,637,575	Acceptances		5,350,000
Loans	51,183,055	Other liabilities		2,122,757
Fixed assets less depreciation	393,622	Capital	$ 3,000,000	
Customers' liability under acceptances	5,350,000	Share premium	125,000	
Other assets	1,919,162	Retained earnings	3,581,083	6,706,083
	$218,937,652			$218,937,652

The Bank owns 80% of the capital stock of Martin Corporation Group Limited, which at August 31, 1981 was carried on the books of the Bank at Aust. $3,980,988 (Can. $5,511,280). The aggregate minority interest in the capital, share premium and retained earnings of Martin Corporation Group Limited as at August 31, 1981 was Aust. $1,341,217 (Can. $1,856,780).

CANADIAN IMPERIAL BANK OF COMMERCE TRUST COMPANY (BAHAMAS) LIMITED

Including its wholly-owned subsidiary company (as at August 31, 1981—in Bahamian Dollars)

ASSETS		LIABILITIES		
Cash and due from banks	$ 696,116	Loans		$ 373,306
Accounts receivable	138,961	Other liabilities		89,799
		Capital	$ 800,000	
Fixed assets less depreciation	777,528	Retained earnings	349,500	1,149,500
	$ 1,612,605			$ 1,612,605

The Bank owns the entire capital stock of Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited, which at August 31, 1981 was carried on the books of the Bank at Bah. $800,000 (Can. $964,640).

BANK OF COMMERCE TRUST COMPANY BARBADOS LIMITED

(as at August 31, 1981—in Barbados Dollars)

ASSETS		LIABILITIES		
Cash and due from banks	$ 3,540,959	Deposits		$16,598,082
Mortgages	13,885,274	Accounts and taxes payable		142,347
		Capital	$ 362,000	
Fixed assets less depreciation	30,208	Retained earnings	354,012	716,012
	$17,456,441			$17,456,441

The Bank owns the entire capital stock of Bank of Commerce Trust Company Barbados Limited, which at August 31, 1981 was carried on the books of the Bank at Barb. $362,000 (Can. $217,996).

CANADIAN IMPERIAL BANK OF COMMERCE TRUST COMPANY (CAYMAN) LIMITED

Including its wholly-owned subsidiary companies (as at August 31, 1981—in Cayman Island Dollars)

ASSETS		LIABILITIES		
Cash and due from banks	$14,829,282	Deposits		$18,191,280
Mortgages	6,085,192	Other liabilities		1,023,586
Fixed assets less depreciation	1,757,469	Capital	$2,250,000	
Other assets	821,968	Retained earnings	2,029,045	4,279,045
	$23,493,911			$23,493,911

The Bank owns the entire capital stock of Canadian Imperial Bank of Commerce Trust Company (Cayman) Limited, which at August 31, 1981 was carried on the books of the Bank at C. I. $2,250,000 (Can. $3,254,400).

Condensed Statements of Assets and Liabilities of Controlled Corporations

COMMERCE FACTORS LIMITED

(as at October 31, 1981—in Canadian Dollars)

ASSETS		LIABILITIES		
Factored accounts and loans	$ 6,756,502	Canadian Imperial Bank of Commerce		$ 4,574,521
		Balance owing on factored accounts		1,528,887
Fixed assets less depreciation	123,780	Other liabilities		1,181,819
		Capital	$ 1,750,006	
Other assets	501,220	Deficit	(1,653,731)	96,275
	$ 7,381,502			$ 7,381,502

In the ordinary course of business, the company issues credit guarantees and undertakes to collect receivables, the combined total of which amounted to approximately $38.5 million at October 31, 1981. The Bank owns the entire capital stock of Commerce Factors Limited, which at October 31, 1981 was carried on the books of the Bank at $2.

COMMERCE LEASING LIMITED

(as at October 31, 1981—in Canadian Dollars)

ASSETS		LIABILITIES		
Net lease receivables	$234,325,221	Canadian Imperial Bank of Commerce		$153,371,083
		Notes payable		3,340,274
Fixed assets less depreciation	95,557	Accounts and taxes payable		1,159,653
		Capital	$77,000,300	
Other assets	180,105	Deficit	(270,427)	76,729,873
	$234,600,883			$234,600,883

The Bank owns the entire capital stock of Commerce Leasing Limited, which at October 31, 1981 was carried on the books of the Bank at $77,000,300.

THE DOMINION REALTY COMPANY LIMITED

Including its wholly-owned subsidiary companies (as at October 31, 1981—in Canadian Dollars)

ASSETS		LIABILITIES		
Fixed assets less depreciation	$133,171,278	Canadian Imperial Bank of Commerce		$ 31,338,703
		Accrued interest and other liabilities		6,998,378
		Notes payable:		
		1982-1991 (U.S. $29,300,000)		29,924,456
		1982-1991		17,500,000
		Capital	$44,000,000	
		Retained earnings	3,409,741	47,409,741
	$133,171,278			$133,171,278

The Bank owns the entire capital stock of The Dominion Realty Company Limited, which at October 31, 1981 was carried on the books of the Bank at $44,000,000.

IMBANK REALTY COMPANY LIMITED

Including its wholly-owned subsidiary company (as at October 31, 1981—in Canadian Dollars)

ASSETS		LIABILITIES		
Fixed assets less depreciation	$ 5,778,454	Canadian Imperial Bank of Commerce		$ 3,264,550
		Other liabilities		1,000
Other assets	1,338,737	Capital	$ 2,750,000	
		Retained earnings	1,101,641	3,851,641
	$ 7,117,191			$ 7,117,191

The Bank owns the entire capital stock of Imbank Realty Company Limited, which at October 31, 1981 was carried on the books of the Bank at $2,750,000.

KINROSS MORTGAGE CORPORATION

(as at October 31, 1981—in Canadian Dollars)

ASSETS		LIABILITIES		
Cash and short-term investments	$ 88,237,756	Canadian Imperial Bank of Commerce		$ 211,966,530
Mortgages	2,249,692,487	1-5 year debentures		411,013,700
Other assets	3,339,040	1-5 year investment certificates		1,415,878,000
		Other indebtedness		60,500,000
		Other liabilities		120,800,050
		Capital	$115,000,000	
		Contributed surplus	75,063	
		Retained earnings	6,035,940	121,111,003
	$2,341,269,283			$2,341,269,283

Kinross Mortgage Corporation was a wholly-owned subsidiary of Glen Elgin Investments Limited. Glen Elgin Investments Limited became a wholly-owned subsidiary of the Bank on March 2, 1981 and on May 7, 1981 the Bank, as sole shareholder, resolved that Glen Elgin Investments Limited be dissolved and that its assets (including its investment in Kinross Mortgage Corporation) be distributed to the Bank.

The Bank owns the entire voting capital stock of Kinross Mortgage Corporation amounting to $85,000,000, with the exception of directors' qualifying shares, which at October 31, 1981 was carried on the books of the Bank at $85,069,950. The non-voting capital stock amounting to $30,000,000 is owned by a third party.

UNITED DOMINIONS CORPORATION (CANADA) LIMITED

Including its wholly-owned subsidiary companies (as at March 31, 1981—in Canadian Dollars)

ASSETS		LIABILITIES		
Cash and due from banks	$ 1,521,442	Canadian Imperial Bank of Commerce		$ 430,078,750
Loans	546,045,154	Notes and debentures payable		99,440,924
		Other liabilities		3,030,561
Fixed assets less depreciation	560,858	Capital	$ 13,000,000	
Other assets	1,771,241	Retained earnings	4,348,460	17,348,460
	$ 549,898,695			$ 549,898,695

The Bank owns the entire capital stock of United Dominions Corporation (Canada) Limited, which at March 31, 1981 was carried on the books of the Bank at $16,786,961.

AUDITORS' REPORT TO THE SHAREHOLDERS OF THE BANK

We have examined the condensed statements of assets and liabilities of controlled corporations of Canadian Imperial Bank of Commerce as at the dates indicated. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying condensed statements of assets and liabilities present fairly the financial positions of the corporations as at the dates indicated.

Toronto, December 1, 1981

Peat, Marwick, Mitchell & Co.
Clarkson Gordon
} *Auditors*

Ten-Year Statistical Review

(thousands of dollars)

REVENUE, EXPENSES AND UNDIVIDED PROFITS	1981	1980	1979
REVENUE			
Income from loans	**$8,072,543**	$5,403,546	$3,777,222
Income from securities	**562,079**	442,631	427,665
Other operating revenue	**349,431**	310,049	248,804
Total Revenue	**$8,984,053**	$6,156,226	$4,453,691
EXPENSES			
Interest on deposits and bank debentures	**$7,217,340**	$4,794,206	$3,246,922
Salaries, pension contributions and other staff benefits	**708,573**	627,867	546,792
Property expenses, including depreciation	**194,404**	165,413	146,335
Other operating expenses	**443,951**	357,984	274,641
Total Expenses	**$8,564,268**	$5,945,470	$4,214,690
Balance of revenue	**$ 419,785**	$ 210,756	$ 239,001
Provision for income taxes relating thereto	**109,600**	18,700	37,700
Balance of revenue after provision for income taxes	**310,185**	192,056	201,301
Appropriation for losses	**20,000**	50,000	15,000
Balance of profits for the year	**290,185**	142,056	186,301
Dividends			
—common	**74,471**	70,551	62,666
—preferred	**14,760**	—	—
Amount carried forward	**200,954**	71,505	123,635
Undivided profits at beginning of year	**1,971**	466	1,831
Transfer from accumulated appropriations for losses	**—**	—	—
	202,925	71,971	125,466
Transferred to rest account	**200,000**	70,000	125,000
Undivided profits at end of year	**$ 2,925**	$ 1,971	$ 466
Average number of common shares outstanding*	**39,196,045**	39,195,000	39,153,843
PER COMMON SHARE (in dollars)			
Balance of revenue, after taxes—basic	**$ 7.53**	$ 4.90	$ 5.14
—fully diluted	**$ 6.95**	$ 4.90	$ 5.14
Dividends	**$ 1.90**	$ 1.80	$ 1.60

*Represents the daily average number of equivalent fully paid shares outstanding.

Note: For purposes of this Review, certain financial statement captions have been abbreviated or grouped, and amounts shown for earlier years have been restated where necessary to conform to the presentation used in 1981.

1978	1977	1976	1975	1974	1973	1972
$2,549,921	$2,043,357	$1,838,009	$1,551,291	$1,369,985	$ 825,824	$ 590,428
290,698	232,303	205,862	183,553	176,499	148,783	159,611
198,855	174,788	163,857	144,451	112,649	96,128	84,632
$3,039,474	$2,450,448	$2,207,728	$1,879,295	$1,659,133	$1,070,735	$ 834,671
$1,917,414	$1,483,380	$1,331,900	$1,110,768	$1,041,991	$ 558,454	$ 408,392
465,118	419,849	359,639	301,596	241,914	192,608	154,129
120,265	103,353	88,246	74,637	64,486	58,190	53,226
231,151	190,246	154,045	129,851	104,613	80,055	63,694
$2,733,948	$2,196,828	$1,933,830	$1,616,852	$1,453,004	$ 889,307	$ 679,441
$ 305,526	$ 253,620	$ 273,898	$ 262,443	$ 206,129	$ 181,428	$ 155,230
112,000	103,000	128,000	128,500	104,800	88,500	73,000
193,526	150,620	145,898	133,943	101,329	92,928	82,230
40,000	30,000	35,000	40,000	38,000	38,000	33,000
153,526	120,620	110,898	93,943	63,329	54,928	49,230
53,361	48,776	44,595	41,111	38,672	33,446	27,872
—	—	—	—	—	—	—
100,165	71,844	66,303	52,832	24,657	21,482	21,358
1,666	4,822	3,519	687	11,030	9,548	8,190
—	—	—	—	—	15,000	10,000
101,831	76,666	69,822	53,519	35,687	46,030	39,548
100,000	75,000	65,000	50,000	35,000	35,000	30,000
$ 1,831	$ 1,666	$ 4,822	$ 3,519	$ 687	$ 11,030	$ 9,548
36,322,273	34,840,000	34,840,000	34,840,000	34,840,000	34,840,000	34,840,000
$ 5.33	$ 4.32	$ 4.19	$ 3.84	$ 2.91	$ 2.67	$ 2.36
$ 5.33	$ 4.32	$ 4.19	$ 3.84	$ 2.91	$ 2.67	$ 2.36
$ 1.45	$ 1.40	$ 1.28	$ 1.18	$ 1.11	$ .96	$ .80

Ten-Year Statistical Review

(thousands of dollars)

ASSETS AND LIABILITIES AS AT OCTOBER 31	1981	1980	1979
ASSETS			
Cash resources	**$ 9,198,877**	$10,862,012	$ 9,483,608
Securities	**4,773,150**	4,702,376	4,570,974
Loans	**43,825,648**	33,830,217	28,397,690
Bank premises	**459,713**	400,084	357,425
Other assets	**8,587,233**	5,633,538	3,184,860
Total	**$66,844,621**	$55,428,227	$45,994,557
LIABILITIES			
Deposits	**$57,208,910**	$48,551,414	$41,717,941
Sundry liabilities	**7,041,488**	4,941,662	2,473,792
Accumulated appropriations for losses	**402,653**	361,704	362,311
Capital funds:			
Debentures	**581,995**	462,277	400,848
Shareholders' equity	**1,609,575**	1,111,170	1,039,665
Total	**$66,844,621**	$55,428,227	$45,994,557
ACCUMULATED APPROPRIATIONS FOR LOSSES			
Accumulated appropriations at beginning of year	**$ 361,704**	$ 362,311	$ 356,278
Additions (deductions) during year:			
Current year's appropriation	**$ 20,000**	$ 50,000	$ 15,000
Losses on loans under (over) five-year average	**47,283**	(55,152)	9,394
Profits and losses on securities	**(40,721)**	(2,189)	(30,093)
Other profits and losses, (net)	**237**	2,034	32
Provision for income taxes	**14,150**	4,700	11,700
Transferred to undivided profits	**—**	—	—
	$ 40,949	$ (607)	$ 6,033
Accumulated appropriation at end of year:			
General	**$ 114,862**	$ 60,097	$ 108,401
Tax-paid	**287,791**	301,607	253,910
Total	**$ 402,653**	$ 361,704	$ 362,311

Note: For purposes of this Review, certain financial statement captions have been abbreviated or grouped, and amounts shown for earlier years have been restated where necessary to conform to the presentation used in 1981.

1978	1977	1976	1975	1974	1973	1972
$ 8,233,880	$ 6,802,000	$ 5,516,136	$ 4,769,445	$ 3,838,470	$ 3,900,295	$ 2,495,251
4,406,583	3,424,193	2,711,762	2,539,166	2,611,826	2,492,933	2,556,442
23,011,289	19,549,517	16,354,823	13,488,454	11,509,598	8,984,594	7,611,469
328,588	296,229	262,735	232,365	212,730	196,528	180,471
2,292,011	1,897,310	1,258,587	1,229,623	774,257	527,316	457,178
$38,272,351	$31,969,249	$26,104,043	$22,259,053	$18,946,881	$16,101,666	$13,300,811
$34,962,061	$29,291,915	$23,851,368	$20,146,034	$17,394,427	$14,801,144	$12,205,229
1,743,545	1,408,676	1,086,810	1,107,995	721,265	499,563	447,535
356,278	332,312	301,363	256,825	210,822	205,249	188,819
300,000	225,000	225,000	175,000	100,000	100,000	—
910,467	711,346	639,502	573,199	520,367	495,710	459,228
$38,272,351	$31,969,249	$26,104,043	$22,259,053	$18,946,881	$16,101,666	$13,300,811
$ 332,312	$ 301,363	$ 256,825	$ 210,822	$ 205,249	$ 188,819	$ 166,731
$ 40,000	$ 30,000	$ 35,000	$ 40,000	$ 38,000	$ 38,000	$ 33,000
(22,922)	(21,728)	(3,147)	(4,844)	(5,624)	(1,360)	(3,811)
(10,608)	2,102	16,085	11,580	(26,772)	(5,332)	1,082
8,496	75	—	(733)	(31)	322	2,117
9,000	20,500	(3,400)	—	—	(200)	(300)
—	—	—	—	—	(15,000)	(10,000)
$ 23,966	$ 30,949	$ 44,538	$ 46,003	$ 5,573	$ 16,430	$ 22,088
$ 106,211	$ 119,709	$ 101,133	$ 93,110	$ 88,865	$ 108,500	$ 115,482
250,067	212,603	200,230	163,715	121,957	96,749	73,337
$ 356,278	$ 332,312	$ 301,363	$ 256,825	$ 210,822	$ 205,249	$ 188,819

Financial Statements under the 1980 Bank Act

Under the provisions of the 1980 Bank Act, financial statements for 1982 onwards are to be prepared in a format and on a basis which is different to that under the 1967 Act and more in accordance with generally accepted accounting principles. The major areas of change are:

STATEMENT PRESENTATION

The financial statements will include the accounts of all subsidiaries on a consolidated basis whereas previously only the accounts of wholly-owned foreign banking subsidiaries were consolidated. Investments in affiliates (20% to 50% owned companies) will be accounted for by the equity method and carried in securities at values which represent the Bank's share of the affiliates' net worth, rather than at cost. The Bank's share of earnings from subsidiaries and affiliates, therefore, will be included in income in place of declared dividends.

Letters of credit and guarantees will not be included in the consolidated statement of assets and liabilities, but will be disclosed in the notes to the financial statements.

SECURITIES

Securities issued or guaranteed by Canada and provinces will continue to be carried at cost, adjusted for the amortization of premiums or accretion of discounts to maturity. Other securities, apart from investments in affiliates, will be carried at cost rather than at the lower of cost or market. Securities held for trading account will continue to be carried at market values.

ACCUMULATED APPROPRIATIONS FOR LOSSES

This account will be renamed appropriations for contingencies account and will continue to consist of two portions—tax allowable and tax paid. Transactions through the tax allowable portion will be restricted to the loan loss experience of the parent bank and the provision for loan losses charged to the income statement, together with transfers from retained earnings which are subject to a cumulative limit prescribed by the Minister of Finance. Subsidiaries' loan losses, the provision charged to the income statement relating thereto and transfers from retained earnings in excess of the prescribed limit, will form the tax paid portion of the account.

Specific provisions to reduce non-government securities to market, previously charged to appropriations for losses account, are no longer required. Profits and losses on the sale of securities, mortgages, premises and other non-recurring items will be accounted for through the income statement, rather than through the appropriations account. In the case of securities which have a maturity date, profits and losses will be amortized over a five year period; all realized profits and losses on other securities will be taken directly to the income statement.

Under rules issued by the Inspector General of Banks, a bank is permitted to transfer an amount from the old tax paid portion of the appropriations for losses account to General Reserve as part of shareholders' equity where it will continue to be available to meet unforeseen losses of which the management is not yet aware.

REST ACCOUNT

Rest account has been divided into its two component parts: contributed surplus (premiums paid in by shareholders in excess of the par value of the shares issued) and retained earnings.

The following statistical review of income and assets and liabilities is presented in a condensed format to provide a five year review of the Bank's operations, restated to reflect the accounting and presentation requirements of the 1980 Bank Act.

In comparison with the 1981 financial statements as published, total assets decreased by $1,147 million or 2% mainly due to the elimination of letters of credit and guarantees. Capital and reserves increased $123 million to $2,135 million which represents the effect of including post acquisition earnings of subsidiaries and affiliates ($43 million), the reversal of provisions to write down securities to market at October 31, 1981 ($69 million) and amortization adjustments ($11 million).

The reconciliation of earnings for 1981 and 1980 between the previously published balance of revenue after provision for income tax and the new net income is:

(in millions)	**1981**	1980
Balance of revenue after provision for income tax—as published	**$310**	$192
Net effect of including the share of earnings from subsidiaries and affiliates in place of declared dividends	**14**	6
Net effect of changed accounting policies for profits and losses on securities and other items previously charged to accumulated appropriations for losses	**(4)**	–
Net income—as restated	**$320**	$198

Five-Year Statistical Review (restated under the provisions of the 1980 Bank Act)

(in millions)

CONSOLIDATED INCOME (years ended October 31)	1981	1980	1979	1978	1977
Interest and dividend income	**$ 8,854**	$ 5,886	$ 4,231	$ 2,874	$ 2,291
Interest expense	**7,409**	4,818	3,258	1,932	1,502
Net interest income	**1,445**	1,068	973	942	789
Provision for loan losses	**215**	167	109	87	66
Net interest income after loan loss provision	**1,230**	901	864	855	723
Other income	**389**	320	253	212	178
Net interest and other income	**1,619**	1,221	1,117	1,067	901
Non-interest expenses	**1,181**	999	864	733	650
Net income before provision for income taxes	**438**	222	253	334	251
Provision for income taxes	**116**	24	43	118	108
Net income before minority interest in subsidiaries	**322**	198	210	216	143
Minority interest in subsidiaries	**2**	—	—	—	—
Net income for the year	**$ 320**	$ 198	$ 210	$ 216	$ 143
Earnings per common share—basic	**$ 7.80**	$ 5.06	$ 5.36	$ 5.94	$ 4.11
—fully diluted	**$ 7.18**	$ 5.06	$ 5.36	$ 5.94	$ 4.11

CONSOLIDATED ASSETS AND LIABILITIES (as at October 31)	1981	1980	1979	1978	1977
Cash resources	**$ 7,584**	$ 9,339	$ 8,047	$ 7,366	$ 6,534
Securities	**5,122**	4,898	4,570	4,386	3,393
Loans	**42,367**	31,182	25,700	20,700	17,452
Mortgage loans	**6,671**	5,272	4,779	3,769	2,931
Customers' liability under acceptances	**2,476**	2,313	867	384	324
Land, buildings, equipment	**622**	545	489	460	423
Other assets	**856**	619	499	330	193
Total assets	**$65,698**	$54,168	$44,951	$37,395	$31,250
Deposits	**$58,715**	$48,435	$41,254	$34,731	$29,173
Acceptances	**2,476**	2,313	867	384	324
Other liabilities	**1,754**	1,401	950	673	469
Minority interests in subsidiaries	**36**	6	—	—	—
Subordinated debt—bank debentures	**582**	462	401	300	225
Capital and Reserves					
Appropriations for contingencies	**157**	91	146	116	120
Shareholders' equity:					
Capital stock—common	**79**	78	78	78	70
—preferred	**300**	—	—	—	—
Contributed surplus	**172**	169	169	164	73
General reserve	**315**	312	264	254	217
Retained earnings	**1,112**	901	822	695	579
Total Capital and Reserves	**$ 2,135**	$ 1,551	$ 1,479	$ 1,307	$ 1,059
Total liabilities	**$65,698**	$54,168	$44,951	$37,395	$31,250

CANADIAN IMPERIAL
BANK OF COMMERCE

Directors

Chairman and Chief Executive Officer
**RUSSELL E. HARRISON

Vice-Chairman and President
*R. DONALD FULLERTON

Vice-Chairmen
*JOHN A. C. HILLIKER
*FRANK H. LOGAN

Board Vice-Presidents

*M. E. JONES, Q.C., LL.B.
Senior Partner, Bennett Jones, Calgary

*H. J. LANG, P.Eng.
Chairman of the Executive Committee of the Board, Canron Inc., Toronto

*J. D. LEITCH
President, Upper Lakes Shipping Ltd., Toronto

*W. F. McLEAN
Director, Canada Packers Inc., Toronto

*ANDRÉ MONAST, Q.C.
Partner, Létourneau & Stein, Quebec

*GEORGE T. RICHARDSON, B.Com., LL.D.
President, James Richardson & Sons, Limited, Winnipeg

*J. C. BARROW
Director, Simpsons-Sears Limited, Toronto

DOUGLAS G. BASSETT
President and Chief Executive Officer, Baton Broadcasting Incorporated, Toronto

*CONRAD M. BLACK, LL.D., Litt.D., LL.L., M.A.
Chairman, Argus Corporation Limited, Toronto

EDMUND C. BOVEY, C.M.
Director, Norcen Energy Resources Limited, Toronto

*MARSH A. COOPER, D.Sc., P.Eng.
President, M. A. Cooper Consultants, Inc., Toronto

E. H. CRAWFORD
President, The Canada Life Assurance Company, Toronto

*R. FRASER ELLIOTT, C.M., Q.C., B.Com., M.B.A.
Senior Partner, Stikeman, Elliott, Robarts & Bowman, Toronto

ALBERT L. FAIRLEY, JR., B.Sc.
Director, Sun Life Assurance Company of Canada, Birmingham, Ala.

J. P. GALLAGHER
Chairman and Chief Executive Officer, Dome Petroleum Limited, Calgary

BERTRAND GERSTEIN, LL.D.
Chairman of the Board, Peoples Jewellers Limited, Toronto

*LAWRENCE G. GREENWOOD
Director, Canadian Reinsurance Company, Toronto

HUGH G. HALLWARD
President, Argo Construction (1981) Inc., Montreal

A. D. HAMILTON
Chairman and Chief Executive Officer, Domtar Inc., Montreal

W. M. HATCH
Director, Jannock Limited, Toronto

*SYDNEY M. HERMANT, B.A., LL.D.
Chairman and Chief Executive Officer, Imperial Optical Company Ltd., Toronto

F. MARGUERITE HILL, M.A., M.D., F.R.C.P.(C)
Physician-in-Chief, Women's College Hospital, Toronto

FREDERICK W. HILL
Chairman of the Board, McCallum Hill Limited, Regina

HARRY HOLE, P.Eng.
Vice-President and General Manager, Lockerbie and Hole Western Limited, Edmonton

G. R. HUNTER, M.B.E., Q.C., LL.B.
Partner, Pitblado & Hoskin, Winnipeg

*JAMES W. KERR
Director, TransCanada PipeLines, Toronto

CALVERT KNUDSEN
Chairman and Chief Executive Officer, MacMillan Bloedel Limited, Vancouver

OLIVIER LECERF
Chairman and Chief Executive Officer, Lafarge Coppée S.A., Paris, France

*A. J. MacINTOSH, Q.C., LL.B.
Partner, Blake, Cassels & Graydon, Toronto

W. DARCY McKEOUGH
President and Chief Executive Officer, Union Gas Limited, Chatham

M. BRIAN MULRONEY, B.A., LL.L., LL.D.
President, Iron Ore Company of Canada, Montreal

*JEAN P. W. OSTIGUY, O.C., LL.D.
Chairman of the Board, Greenshields Incorporated, Montreal

*ALFRED POWIS
Chairman and President, Noranda Mines Limited, Toronto

EWART A. PRATT, B.Sc.(Econ.)
Chairman, Steers Limited, St. John's, Nfld.

CONRAD S. RILEY
Chairman, The Canadian Indemnity Company, Winnipeg

HON. JOHN P. ROBARTS, P.C., C.C., Q.C., LL.D., D.C.L.
Partner, Stikeman, Elliott, Robarts & Bowman, Toronto

ROBERT G. ROGERS
Chairman of the Board, Crown Zellerbach Canada Limited, Vancouver

*ROBERT C. SCRIVENER
Director, Northern Telecom Limited, Toronto

DR. CATHERINE WALLACE, O.C.
Chairman, Maritime Provinces Higher Education Commission, Fredericton

*WALTER G. WARD, B.Sc.(Eng.), P.Eng.
Director, The Algoma Steel Corporation, Limited, Peterborough

W. GALEN WESTON
Chairman and President, George Weston Limited, Toronto

*Member of Executive Committee

**Chairman of Executive Committee

Hon. John P. Robarts

Standing, left to right:
Lawrence G. Greenwood
Harry Hole
Robert G. Rogers
Seated, left to right:
W. M. Hatch
Edmund C. Bovey
H. J. Lang

Standing, left to right:
W. Darcy McKeough
J. C. Barrow
Bertrand Gerstein
Ewart A. Pratt
Seated, left to right:
W. Galen Weston
R. Fraser Elliott
Calvert Knudsen
J. D. Leitch

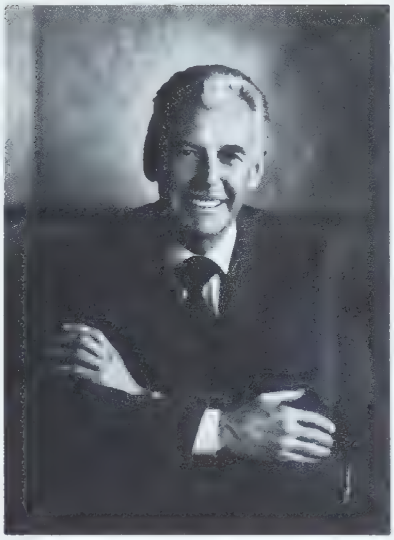
Olivier Lecerf

Standing, left to right:
Walter G. Ward
James W. Kerr
Frederick W. Hill
Seated, left to right:
M. E. Jones
J. Page R. Wadsworth
A. D. Hamilton

Standing, left to right:
Hugh G. Hallward
G. R. Hunter
M. Brian Mulroney
Sydney M. Hermant
Seated, left to right:
Albert L. Fairley, Jr.
Catherine Wallace
George T. Richardson
Marsh A. Cooper

A. J. MacIntosh

J. P. Gallagher



Left to right: Robert C. Scrivener, Alfred Powis

Standing, left to right:
Conrad S. Riley
André Monast
Conrad M. Black
Douglas G. Bassett
W. F. McLean

Seated, left to right:
E. H. Crawford
F. Marguerite Hill
Jean P. W. Ostiguy

International Advisory Council

Barbados:
JOHN S. GODDARD
Chairman and Chief Executive Officer, Goddard Enterprises Limited, Bridgetown

France:
COUNT PIERRE CELIER
President, Compagnie Générale d'Industrie et de Participations, Paris

Federal Republic of Germany:
DR. HERBERT GRUENEWALD
Chairman of the Managing Board, Bayer AG, Leverkusen

Hong Kong:
LI KA SHING
Chairman and Managing Director, Cheung Kong (Holdings) Limited

Italy:
DR. GUIDO CARLI
President, Union des Industries de la Communaute Europeenne, Rome

Japan:
DR. KOJI KOBAYASHI
Chairman of the Board and Chief Executive Officer, Nippon Electric Co., Ltd., Tokyo

Netherlands:
DR. HAN HOOG
Past President, Netherlands Energy Research Foundation, The Hague

Sweden:
HANS WERTHÉN
Chairman, AB Electrolux, Stockholm

United Kingdom:
THE RT. HON. LORD McFADZEAN, K.T.
Honorary President, British Insulated Callender's Cables Limited, London

SIDNEY SPIRO
Director, De Beers Consolidated Mines Limited, London

United States:
J. ROBERT FLUOR
Chairman and Chief Executive Officer, Fluor Corporation, Irvine, California

HAROLD A. SHAUB
Director, Campbell Soup Company, Camden, New Jersey

Canada:
THOMAS J. BATA
President, Bata Limited, Toronto

J. P. GALLAGHER
Chairman and Chief Executive Officer, Dome Petroleum Limited, Calgary

Directors Emeritus

AUBREY W. BAILLIE, *Toronto*
HENRY BORDEN, O.C., C.M.G., Q.C., LL.D., D.C.L., *Toronto*
HON. JOHN V. CLYNE, *Vancouver*
RALPH W. COOPER, *Hamilton*
IAN D. DAVIDSON, C.B.E., *Cuernavaca, Mexico*
M. A. EAST, *Saskatoon*
ELIOT S. FROSST, *Montreal*
E. C. GILL, LL.D., F.S.A., *Toronto*
EDGAR L. HICKMAN, *St. John's, Nfld.*
W. F. JAMES, Ph.D., *Toronto*
M. W. MACKENZIE, O.C., C.M.G., LL.D., C.A., *Ottawa*
SENATOR, HON. ERNEST C. MANNING, P.C., C.C., LL.D., *Edmonton*
THOMAS H. McCLELLAND, B.Sc., P.Eng., *Vancouver*
H. L. McCULLOCH, B.A.Sc., *Cambridge*
THE RT. HON. LORD McFADZEAN, K.T., *London, England*
GEORGE H. McIVOR, C.M.G., *Calgary*
ALLEN A. McMARTIN, *Tucker's Town, Bermuda*
TREVOR F. MOORE, C.M., *Toronto*
PHILIP W. OLAND, O.C., C.D., B.Sc., LL.D., *Saint John, N.B.*
MAJ.-GEN. HON. E. C. PLOW, C.B.E., D.S.O., C.D., D.C.L., *Brockville*
J. E. RICHARDSON, LL.B., *Vancouver*
J. D. SIMPSON, *Vancouver*
J. HERBERT SMITH, D.Sc., *Toronto*
JAMES STEWART, C.B.E., LL.D., *Toronto*
A. A. THORNBROUGH, M.A., B.Sc., *Boca Raton, Florida*
J. PAGE R. WADSWORTH, *Toronto*

CANADIAN IMPERIAL
BANK OF COMMERCE

Chairman and Chief Executive Officer
RUSSELL E. HARRISON

R. DONALD FULLERTON
Vice-Chairman and President

JOHN A. C. HILLIKER
Vice-Chairman

FRANK H. LOGAN
Vice-Chairman

JAMES G. BICKFORD
Executive Vice-President
Administration

CLARENCE W. COLE
Executive Vice-President
Treasury

A. WARREN MOYSEY
Executive Vice-President
International

B. V. GESTRIN
Vice-President and
Economic Adviser

G. W. RADFORD
Vice-President and
Corporate Secretary

G. B. SOTEROFF
Vice-President
Public Relations

CORPORATE AND MERCHANT BANKING

R. DONALD FULLERTON, *Vice-Chairman and President*

CORPORATE BANKING DIVISION
T. V. GRINDLEY, *Senior Vice-President*
J. W. BOWDEN, *Vice-President (Corporate Finance)*
A. R. MELMAN, *Vice-President (Corporate Finance)*
J. P. MORETON, *Vice-President (Government Relations)*
J. A. MYERS, *Vice-President (Cash Management, Corporate Finance)*
D. F. ROBERTS, *Vice-President (Corporate Finance)*
J. BUMISTER, *Assistant General Manager (Cash Management Services)*
R. M. CRABBE, *Assistant General Manager (Administration)*
L. W. MacLACHLAN, *Assistant General Manager (Corporate Development)*
R. B. RILEY, *Assistant General Manager (Corporate Finance)*

CREDIT DIVISION
L. D. HIVON, *Vice-President and General Manager*
I. R. HARRISON, *Vice-President (International)*
R. F. HENTHORN, *Vice-President*
J. A. M. WILLIAMSON, *Vice-President*
W. M. BOWERS, *Assistant General Manager*
R. D. BRIDGE, *Assistant General Manager*
D. A. CLUTTON, *Assistant General Manager*
P. H. FARRAR, *Assistant General Manager*
G. G. G. MATHEWS, *Assistant General Manager*
E. J. MORRIS, *Assistant General Manager*
J. H. SPENCE, *Assistant General Manager*

SYSTEMS AND PLANNING DEPARTMENT
D. J. GRIFFITHS, *Vice-President*
W. J. MIZEN, *Assistant General Manager*

OIL AND GAS DIVISION, *Calgary*
F. S. DUNCANSON, *Senior Vice-President*
J. G. BREEN, *Vice-President*
B. G. COMBER, *Vice-President*
D. E. KEINICK, *Vice-President*
W. M. ALSTON, Assistant General Manager

TREASURY

CLARENCE W. COLE, *Executive Vice-President*
E. L. PURSEY, *Senior Vice-President*

FINANCE DIVISION
J. C. PATTISON, *Vice-President*

POLICY AND PLANNING DIVISION
W. T. HODGSON, *Vice-President*

TAXATION DIVISION
P. G. S. CANTOR, *Vice-President*

DOMESTIC

JOHN A. C. HILLIKER, *Vice-Chairman*

R. G. RUSSELL, *Vice-President and General Manager*
L. W. REAL, *Assistant General Manager*

CONSUMER DIVISION
J. E. WIGHTMAN, *Vice-President*
R. F. WOODWARD, *Assistant General Manager*
R. V. KEITH, *Assistant General Manager*

COMMERCE LEASING LIMITED
J. E. LACKEY, *Vice-President*

KINROSS MORTGAGE CORPORATION
J. M. BROOKS, *Deputy Chairman and Chief Executive Officer*
F. D. A. BOAL, *President*
R. C. BUCHAN, *Vice-President*
D. J. HOLMES, *Vice-President*

UNITED DOMINIONS CORPORATION
A. D. THOMPSON, *President*

COMMERCE FACTORS LIMITED
J. R. LOEWEN, *President*

REGIONAL ORGANIZATION

ATLANTIC REGION (HALIFAX)
P. F. LEGER, *Vice-President and Regional General Manager*
D. A. LOEWEN, *Assistant General Manager*

QUEBEC

M. J. M. CASAVANT, *Senior Vice-President*

MONTREAL REGION (MONTREAL)
D. J. LEYNE, *Vice-President and Regional General Manager*
J. J. L. FORTIN, *Assistant General Manager*

QUEBEC REGION (MONTREAL)
J. B. Y. R. BELANGER, *Vice-President and Regional General Manager*
E. R. HANDRAHAN, *Assistant General Manager*

ONTARIO

G. T. ORMSTON, *Senior Vice-President*
S. S. WILLIAMS, *Vice-President, Corporate Banking*
J. A. DORRIAN, *Assistant General Manager, Toronto Regions*
I. A. L. IRVING, *Assistant General Manager*
H. G. PALAZZI, *Assistant General Manager, International Banking Centre*
L. S. C. WILSON, *Assistant General Manager*

ONTARIO CENTRAL EAST REGION (TORONTO)
T. P. G. MORRIS, *Vice-President and Regional General Manager*
F. M. BRECHT, *Assistant General Manager*

ONTARIO CENTRAL WEST REGION (TORONTO)
D. D. BARRETT, *Vice-President and Regional General Manager*
J. L. LOWRY, *Assistant General Manager*

ONTARIO TORONTO CITY REGION (TORONTO)
H. G. MILLS, *Vice-President and Regional General Manager*
H. R. SCHLACK, *Assistant General Manager*
J. R. McGILL, *Assistant General Manager*

ONTARIO COMMERCE COURT REGION (TORONTO)
R. N. BRADY, *Vice-President and Manager*

ONTARIO EAST AND NORTH REGION (OTTAWA)
M. L. DUFRESNE, *Vice-President and Regional General Manager*
J. WEBSTER, *Assistant General Manager*

ONTARIO CENTRAL SOUTH REGION (HAMILTON)
R. J. BISSET, *Vice-President and Regional General Manager*
M. J. M. MacLEAN, *Assistant General Manager*

ONTARIO SOUTH-WEST REGION (LONDON)
W. F. SPENCE, *Vice-President and Regional General Manager*
D. W. STEPHENSON, *Assistant General Manager*

MANITOBA REGION (WINNIPEG)
R. S. T. ROBBINS, *Vice-President and Regional General Manager*
O. J. WEINS, *Assistant General Manager*

SASKATCHEWAN REGION (REGINA)
J. B. ROGAN, *Vice-President and Regional General Manager*
W. E. TANNAHILL, *Assistant General Manager*

ALBERTA SOUTH REGION (CALGARY)
V. R. B. NORDHEIMER, *Senior Vice-President and Regional General Manager*
G. K. SHERMAN, *Assistant General Manager*

ALBERTA NORTH AND NORTHWEST TERRITORIES REGION (EDMONTON)
J. G. ANDERSON, *Vice-President and Regional General Manager*
G. P. DIXON, *Assistant General Manager*
N. H. LEWIS, *Assistant General Manager*

BRITISH COLUMBIA

C. J. SHIRLEY, *Senior Vice-President*

VANCOUVER AND LOWER MAINLAND REGION (VANCOUVER)
C. H. CORINALDI, *Vice-President and Regional General Manager*
J. E. WILLSON, *Assistant General Manager*

VANCOUVER ISLAND, INTERIOR AND YUKON REGION (VANCOUVER)
G. W. LEWIS, *Vice-President and Regional General Manager*
G. T. BRADLEY, *Assistant General Manager*

J. BILSLAND, *Vice-President and Manager, Hastings and Granville*

INTERNATIONAL BANKING

A. WARREN MOYSEY, *Executive Vice-President*

INTERNATIONAL OFFICE, Toronto
C. E. LANGSTON, *Senior Vice-President*

VICE-PRESIDENT
B. D. BRUCE, *(Treasury Operations)*

ASSISTANT GENERAL MANAGERS
W. SHURNIAK
B. L. BANNERMAN, *(Correspondent Banking)*
K. G. HOUSE, *(Martin Corporation Group Limited, Australia)*
B. D. G. JONES, *(Martin Corporation Group Limited, Australia)*
R. M. KELLY, *(Operations)*
B. J. SWANSON, *(Human Resources)*

GENERAL MANAGER
D. J. CHIAPPE, *(Latin America)*

UNITED STATES OPERATIONS OFFICE, New York
A. L. FLOOD, *Vice-President, U.S.A.*
J. S. HUNKIN, *General Manager, U.S.A.*
G. E. BEASLEY, *Assistant General Manager (Credit)*
G. M. FOSTER, *Assistant General Manager (Administration)*
A. M. MINARD, *Assistant General Manager (Operations)*
R. D. GOLDHAWK, *General Manager (Southwest and Rocky Mountain Region, Houston)*
R. A. McKERROLL, *General Manager (Western Region, San Francisco)*

CALIFORNIA CANADIAN BANK
R. A. McKERROLL, *President*
L. W. BLANCHARD, *Senior Vice-President*
D. F. BOWMAN, *Senior Vice-President*
W. B. SIMPSON, *Senior Vice-President*
B. D. WILLIAMSON, *Senior Vice-President*

EUROPEAN OPERATIONS OFFICE, London
P. H. NICKELS, *Vice-President, Europe, Africa and the Middle East*
M. A. MacINTYRE, *Assistant General Manager*

C.I.B.C. LIMITED, London
R. PLENTL, *Managing Director*
J. B. CLARK, *Deputy Managing Director*
F. SHAUGHNESSY, *Deputy Managing Director*

ASIA PACIFIC OPERATIONS OFFICE, Hong Kong
H. KLUGE, *Vice-President, Asia Pacific Operations*
S. H. COTTER, *Assistant General Manager (Administration)*
C. GRAHAM, *Assistant General Manager (Credit)*

ADMINISTRATION

JAMES G. BICKFORD, *Executive Vice-President*

E. S. DUFFIELD, *Senior Vice-President*

ACCOUNTS AND CONTROL DIVISION
D. BOWDER, *Vice-President and Chief Accountant*
R. R. KARON, *Assistant General Manager*

HEAD OFFICE SERVICES
J. S. ALLAN, *Assistant General Manager*

INSPECTION DIVISION
A. D. BROOMFIELD, *Vice-President and Chief Inspector*
W. DUTHIE, *Assistant General Manager*

PERSONNEL DIVISION
P. J. COTTON, *Vice-President*
N. EAKINS, *Assistant General Manager (Employee Relations)*
J. M. HAZLEWOOD, *Assistant General Manager (Personnel)*

REAL ESTATE DIVISION
R. A. McELWAIN, *Vice-President*
A. S. HASKETT, *Assistant General Manager (Premises)*
J. W. S. MARTIN, *Assistant General Manager (Commerce Court Building Management)*
S. T. PORTEOUS, *Assistant General Manager (Planning and Control)*
J. A. TAYLOR, *Assistant General Manager (Premises)*
J. B. THOMPSON, *Assistant General Manager (Property Development and Administration)*

SYSTEMS DIVISION
K. E. LONG, *Vice-President, and General Manager*
G. L. JOHNSTONE, *Vice-President, Operations*
R. J. WHITE, *Vice-President, Planning and Control*
R. P. WISMER, *Vice-President, Development*
C. E. PEDLAR, *Assistant General Manager (Planning)*
M. RYLES, *Assistant General Manager (Human Resources Administration)*
J. R. WARD, *Assistant General Manager (Human Resources)*

Offices of the Bank

HEAD OFFICE:

COMMERCE COURT, TORONTO, CANADA M5L 1A2
Cable Address CANBANK, TORONTO, CANADA
Telephone 862-2211
Telex No. 065-24116 Answer-Back "Canbank Tor"

INTERNATIONAL OFFICES

IN THE UNITED STATES
U.S. Operations Office
245 Park Avenue
New York, New York, 10167

Banking Offices
New York, New York (Agency)
22 William Street
New York, New York, 10005

Canadian Imperial Bank of Commerce Trust Company (Banking Subsidiary)
20 Exchange Place
New York, New York, 10005

San Francisco, California (Agency)
340 Pine Street
San Francisco, California, 94104

Atlanta, Georgia (Agency)
Suite 1400
First National Bank Tower
2 Peachtree Street N.W.
Atlanta, Georgia, 30303

Chicago, Illinois (Limited State Branch)
Suite 4100, 30 North LaSalle Street
Chicago, Illinois, 60602

Pittsburgh, Pennsylvania
(Limited State Branch)
Suite 5670, United States Steel Building
600 Grant Street
Pittsburgh, Pennsylvania, 15219

Beaverton, Oregon
3425 S.W. Cedar Hills Boulevard
Beaverton, Oregon, 97005

Portland, Oregon
Sixth and Washington
Portland, Oregon, 97207

Fourth and Market
Portland, Oregon, 97207

Ninth and Halsey (Lloyd Center)
Portland, Oregon, 97212

Seattle, Washington
801 Second Avenue
Seattle, Washington, 98111

California Canadian Bank
(Banking Subsidiary)
Head Office:
340 Pine Street
San Francisco, California, 94104
Branches at Belmont; Campbell; Concord; Cupertino; El Cajon; Lafayette; 700 South Flower Street, 3301 Wilshire Boulevard, Los Angeles; Mission Viejo; Newport Beach; Orange; Palo Alto; Pleasant Hill; Rancho Mirage; Sacramento; 770 B Street, 4160 Kearny Mesa Road, 3505 Sports Arena Boulevard, San Diego; 344 Pine Street, 35 Bay Street, 1000 Taraval Street, San Francisco; San Jose; San Mateo; San Rafael; Santa Rosa and Sunnyvale.

Representative Offices
Dallas, Texas
Suite 818, One Main Place
Dallas, Texas, 75250

Denver, Colorado
Suite 925, One Denver Place
999 — 18th Street
Denver, Colorado, 80202

Houston, Texas
Suite 1110, Two Houston Center
909 Fannin Street
Houston, Texas, 77010

IN EUROPE
European Operations Office
55 Bishopsgate
London EC2N 3NN, England

Banking Offices
London, England
55 Bishopsgate
London EC2N 3NN, England

48 Berkeley Square
London W1X 6HE, England

Frankfurt, West Germany
Bockenheimer Landstrasse 51-53
6000 Frankfurt am Main, West Germany

Paris, France
19, Avenue Montaigne
75008, Paris, France

Representative Offices
Amsterdam, The Netherlands
Vijzelstraat 79B, 1017 HG
Amsterdam, The Netherlands

Birmingham, England
1st Floor, Alpha Tower
Suffolk Street
Birmingham B1 1TT, England

Milan, Italy
Via V. Pisani 19
1 20124, Milan, Italy

Zurich, Switzerland
Bleicherweg 39
8002, Zurich, Switzerland

IN THE MIDDLE EAST
Manama, Bahrain
Offshore Banking Unit
and Representative Office
Manama Centre Building
Government Road
Manama, Bahrain

IN THE ASIA PACIFIC
Asia Pacific Operations Office
19th Floor, China Building
29 Queen's Road, Central
Hong Kong

Banking Offices
Hong Kong
17th Floor, China Building
29 Queen's Road, Central
Hong Kong

Tokyo, Japan
8th Floor, Hibiya Kokusai Building
2-3, Uchisaiwai-cho 2-chome
Chiyoda-ku, Tokyo 100
Japan

Singapore
Offshore Branch with Asian Currency Unit
Tower 1401, D.B.S. Building
6 Shenton Way, Singapore 0106

Representative Offices
Beijing, People's Republic of China
International Club
Jian Guo Men Wai
Beijing, People's Republic of China

Sydney, Australia
AMP Centre
50 Bridge Street
Sydney, N.S.W. 2000
Australia

IN LATIN AMERICA
Representative Offices
Buenos Aires, Argentina
Av. Roque Saenz Peña
No. 917—1er Piso
1035 Buenos Aires, Republica Argentina

São Paulo, Brazil
Rua Libero Badaro
377-12°-cj. 1203
CEP 01009-São Paulo (SP), Brazil

Mexico City, Mexico
Paseo de la Reforma 199-1101
Mexico 06500, D.F., Mexico

Offices of the Bank (continued)

IN THE WEST INDIES

Bahamas and Caymans Area Office
Box N8329, Nassau, Bahamas
Branches at Bay and Parliament, Madeira Shopping Centre, Nassau Beach Hotel, Potter's Cay, Nassau; Man-of-War Cay; Marsh Harbour; San Andros; Churchill Square, Eight Mile Rock, International Airport, Queen's Highway, Freeport; George Town, Grand Cayman.

Eastern Caribbean Area Office
Box 503, Bridgetown, Barbados
Branches at St. John's, Antigua; Broad Street, Pandora's Shopping Centre, Trafalgar and Marhill, Bridgetown; Fontabelle, Holetown, Oistins, Peronne Plaza, Rock Dundo, Speightstown, Worthing, Barbados; Castries, Vieux Fort, St. Lucia and Kingstown, St. Vincent.

TRUST OPERATIONS

A full range of trust services is available through:

Bank of Commerce Trust Company
Barbados Limited
P.O. Box 1008, Bridgetown, Barbados

Bank of Commerce Trust Company
Trinidad and Tobago Limited
P.O. Box 1059
Port of Spain, Trinidad

The Canadian Bank of Commerce Trust
Company (Caribbean) Limited
P.O. Box 43
Kingston, Jamaica

Canadian Imperial Bank of Commerce
Trust Company
20 Exchange Place
New York, New York, 10005

Canadian Imperial Bank of Commerce
Trust Company (Bahamas) Limited
P.O. Box N3933, Nassau, Bahamas

Canadian Imperial Bank of Commerce
Trust Company (Cayman) Limited
P.O. Box 694
Grand Cayman, Cayman Islands

WHOLLY-OWNED INTERNATIONAL SUBSIDIARIES

Bank of Commerce Jamaica Limited
Head Office:
Box 762, 121 Harbour Street
Kingston, Jamaica
Branches at King and Harbour Streets, Duke and Laws Streets, Half Way Tree, Manor Park Shopping Centre, New Kingston, Newport West, Twin Gates Shopping Centre, Kingston; Mandeville; May Pen; Montego Bay; Ocho Rios and Port Antonio.

CIBC Finance B.V.
Vijzelstraat 79B
Amsterdam, The Netherlands

CIBC Finanz AG
Bleicherweg 39
8002, Zurich, Switzerland

CIBC Limited
55 Bishopsgate
London EC2N 3NN, England

California Canadian Bank
(Banking Subsidiary)
Head Office:
340 Pine Street
San Francisco, California, 94104
Branches at twenty-six locations throughout California.

Canadian Imperial Bank of Commerce
(Asia) Limited
Tower 1401-A, D.B.S. Building
6 Shenton Way, Singapore 0106

Canadian Imperial Bank of Commerce
(International) S.A.
1, Rue du Boccador
75008, Paris, France

Commerce International Finance
Company (Asia) Limited
19th Floor, China Building
29 Queen's Road, Central
Hong Kong

Commerce International Trust Limited
55 Bishopsgate
London EC2N 3NN, England

INTERNATIONAL AFFILIATES

Bank of Commerce
Trinidad and Tobago Limited
Head Office:
P.O. Box 69
Port of Spain, Trinidad
Branches at 72 Independence Square, Ariapita Avenue at Murray, 53 Frederick Street, 55 Queen Street, Port of Spain; Chaguanas, Glencoe, Marabella, Maraval, St. James, San Fernando, San Juan, Tunapuna and Valsayn in Trinidad; and Scarborough in Tobago.

Banque Arabe et Internationale
d'Investissement
12, Place Vendôme
75001, Paris, France

Banque des Iles Saint-Pierre et Miquelon
Rue Jacques-Cartier
Saint-Pierre
Saint-Pierre et Miquelon

Canadian Eastern Finance Limited
20th Floor, China Building
29 Queen's Road Central
Hong Kong

Crédit Commercial de France S.A.
103, Avenue des Champs-Elysées
Paris, France

International Energy Bank Limited
5th Floor, Winchester House
100 Old Broad Street
London EC2M 1BE, England

Kuwait Pacific Finance Company Limited
1405-1408 Hutchison House
10 Harcourt Road, Central
Hong Kong

Martin Corporation Group Limited
P & O Building
2 Castlereagh Street
Sydney, N.S.W. 2000
Australia

Transatlantic Trust Corporation
Saint John
New Brunswick, Canada

Offices of the Bank (continued)

DOMESTIC REGIONAL OFFICES

ATLANTIC:

Atlantic Region

1809 Barrington Street,
Halifax, N.S., B3J 3K8

QUEBEC:

Montreal Region
Quebec Region

1155 Dorchester Blvd. West,
Montreal, P.Q., H3B 3Z4

ONTARIO:

Ontario Central East Region
Ontario Central West Region
Ontario Toronto City Region
Ontario Commerce Court Region

Commerce Court West,
Toronto, M5L 1A2

Ontario East and North Region

222 Queen Street,
Ottawa, Ontario, K1P 5V9

Ontario Central South Region

1 James Street South,
Hamilton, Ontario, L8P 4R5

Ontario South-West Region

380 Wellington Street,
London, Ontario, N6A 5B5

MANITOBA:

Manitoba Region

375 Main Street,
Winnipeg, Manitoba, R3B 0X3

SASKATCHEWAN:

Saskatchewan Region

1867 Hamilton Street,
Regina, Saskatchewan, S4P 2C2

ALBERTA AND
NORTHWEST TERRITORIES:

Alberta South Region

309-8th Ave. S.W.,
Calgary, Alberta, T2P 1C6

Alberta North and
Northwest Territories Region

9990 Jasper Ave.,
Edmonton, Alberta, T5J 1P6

BRITISH COLUMBIA AND YUKON:

Vancouver and Lower Mainland Region
Vancouver Island, Interior
and Yukon Region

640 West Hastings Street,
Vancouver, B.C., V6B 1P9

INTERNATIONAL BANKING CENTRES IN CANADA

TORONTO

Commerce Court
Toronto
M5L 1A2

VANCOUVER

640 West Hastings Street
Vancouver, British Columbia
V6B 1P9

MONTREAL

1155 Dorchester Boulevard West
Montreal, Quebec
H3C 3B2

HALIFAX

1809 Barrington Street
Halifax, Nova Scotia
B3J 3A3

CALGARY

309-8th Avenue S.W.
Calgary, Alberta
T2P 2G9

WINNIPEG

375 Main Street
Winnipeg, Manitoba
R3C 2P3

CANADIAN IMPERIAL
BANK OF COMMERCE

Printed in Canada

SPECTRUM

CANADIAN IMPERIAL
BANK OF COMMERCE

Volume 2, Number 3, 1981

Placing Constitutional Reform in Perspective

by David K. Elton

David K. Elton was born in Calgary and received his primary and secondary education there. He graduated from Brigham Young University in Utah with a B.A. in Business Administration and Political Science. He took his M.A. at Arizona State University and was awarded his Ph.D. at the University of Alberta after completing a thesis on Federalism and Public Policy.

Dr. Elton spent some years as an Associate Professor of Political Science at the University of Lethbridge, at the same time serving as a consultant to industry and government on the impact of public opinion on public policy. In 1978 Dr. Elton became Research Director of the Canada West Foundation, an organization funded by western Canadian government and private sources to fashion a western consensus on the nature of Canadian federalism. In 1980 Dr. Elton was appointed President of the Foundation.

Dr. Elton is a member of the Policy Board, Canadian Plains Research Centre, in Regina; a member of the Board of Advisors, School of Community and Public Affairs, Concordia University, Montreal; and a member of the Advisory Board, Canadian Studies Program, Brigham Young University, Utah. He has written numerous academic and popular articles on national and provincial politics, including "Electoral Perceptions on Federalism", "Public Opinion and Federal-Provincial Relations: A Case Study in Alberta", and "Summary Report on Proceedings of the Colloquia on Constitutional Change". He has been co-author of major papers on constitutional reform, including "The Basic Issues in Constitutional Reform", "Western Alienation and Political Culture" and "Alternatives: Towards the Development of an Effective Federal System for Canada". During 1981 he was guest lecturer on constitutional reform and western economic issues at Guelph University, Laurentian University and the University of Western Ontario, and at Duke University, Brigham Young University and the Western Social Science Association in the United States.

Dr. Elton lives in Lethbridge, Alberta with his wife and six children.

Placing Constitutional Reform in Perspective

It would be hard to find any Canadian who has not been exposed to a healthy dose of discussion and analysis of Canada's constitution within the past few months. Indeed, many might feel that they have had an overdose. Commentary on the constitution has dominated government agenda, debate in learned journals, the news media, talk shows, public affairs programming, and has even occupied considerable advertising space. Words and phrases like patriation, joint resolution, entrenchment, unilateralism, sovereignty-association, federalism, amending formula, and the like are now commonplace.

Whatever further changes might be made in the constitutional resolution, and however long it might take for the political reverberations to die away, it should not be thought that an end to the debate on patriation, amending formulae and a charter of rights and freedoms will conclude the debate on constitutional reform in this country. Quite the contrary. Constitutional issues will continue to force themselves onto the public agenda and take precedence over other issues until such time as the structural framework of Canadian federalism has been adjusted to reflect the regional realities of Canada.

To understand just why we should *not* expect the constitutional debate to come to an end once the Canada Act is passed by the British Parliament, the events of the past few years must be placed in the perspective of the fundamental political and social issues which have caused Canadians to seek constitutional reform. For example, the discussions since the Quebec referendum of May 1980 have not directly addressed or focussed upon the two fundamental political issues which have triggered the demand for constitutional reform: Quebec nationalism and regional alienation. These two basic issues, along with the recent developments in Parliament and elsewhere, need to be placed in a broader perspective, not only to determine how much we have achieved, but also to identify what needs to be done to bring Canada successfully through its current constitutional malaise.

Why Constitutions Matter

Why should people care about constitutions? Perhaps the best way to answer the point is by analogy. Most people manage very nicely most of the time without worrying about the basic structure or foundations of their homes. They worry about repainting, or putting on siding, or getting new rugs or furniture. With the approach of winter, some wonder about more insulation or double-glazing to cut down on the fuel bill; or perhaps they have a teenager who has taken up the trumpet and look into soundproofing some walls. For most of us, most of the time, this is the closest we get to structural concerns with regard to our homes. On occasion, however, we have to look at more basic things. Perhaps the basement has been flooding, or large cracks appear in the walls. Or perhaps renovations and additions are necessary to accommodate changing family needs. At such times it becomes necessary to move out the furniture, take up the carpets and start ripping into the walls to put everything right. It is the kind of thing no one undertakes lightly, but on occasion it cannot be avoided.

So it is with politics. It is to be taken for granted that there will always be some measure of dispute or disagreement within a country since the interplay of conflicting demands and expectations is what politics is all about. Usually, these political disagreements amount to little more than the equivalent of the standard domestic controversies about whether the living room needs repainting, or where the piano should be moved, or if the rug will last another year. On occasion, however, more serious cracks appear in the structure of the political system. This has been the case in Canada since the transformation of Quebec in the so-called "Quiet Revolution", and since the Royal Commission on Bilingualism and Biculturalism brought to national attention problems that had been building up for decades. And, during the past two decades, other cracks have appeared, such as regional alienation, protracted negotiations between federal and provincial governments on key issues such as energy, economic development, communications, and the like. All of these events have convinced elected officials and citizens affected by these policies that we have been papering over some serious constitutional defects which are threatening the very foundations of our nation.

A constitution is to politics what bearing walls, beams, ceilings and floors are to a house. It contains the basic rules and limits of the operation of a political society, laying down the procedures for the making of authoritative decisions. It specifies who makes what decisions and in what way, and how these decisions will be enforced. A constitution assigns pow-

ers, places limitations (both procedural and substantive) on those powers, and thereby provides the framework for political activity.

In some countries, constitutions sometimes do more than this. Just as some houses are aesthetically pleasing architectural works of art as well as being a comfortable place to live, so constitutions can be inspirational and unifying symbols, containing a credo or statement of purpose for the whole country that sanctifies and exalts the constitutional document itself. This is true, for example, of the American constitution, but it has never happened in Canada. As countries go, Canada's origins can best be likened to a marriage of convenience. The British North America Act is far from inspirational, being instead a prosaic and pragmatic document. Time has confirmed by simple survival the sagacity of many of the initial arrangements, but has never rewarded the document with veneration. The new Canada Act, while its drafting was guided by a greater concern for the emotive and inspirational, remains primarily a practical "nuts-and-bolts" document, rather than a prose poem to Canadian nationhood.

Identifying Constitutional Issues

In a functioning political system, the constitution is looked upon as a rulebook with the Supreme Court acting as the referee. On occasion, however, issues can become so pressing and their resolution so difficult that they become constitutional issues, which politicians do not want the court to resolve using the existing rule book. Furthermore, when it comes to rewriting the rules themselves, the Supreme Court is of no help, because it is set up to interpret and apply the rules rather than to make them.

The very act of redefining something as a *constitutional* issue is significant. Once a key participant like a provincial or federal government attaches constitutional status to an issue, what is at stake is suddenly not just the score of the game or the wisdom of the umpire's last call, but the very rules under which the game is being played. Of necessity, such an occurrence cannot be treated as part of "normal" politics; the politics of constitutional agitation must be treated as a class apart.

Up until the mid-1960s the agenda for substantive constitutional change in Canada was limited to four issues: symbolic patriation; a workable amending formula; consideration from time to time of electoral or institutional reform (House of Commons and/or Senate); and (from time to time, chiefly at the instigation of Quebec) the redistribution of legislative powers. In the last twenty years a growing number of issues have been pushed up to the level of constitutional issues. Regional economic development, resource management, the promotion of bilingualism and biculturalism in an ethnically diverse country, the impact of communication techniques in the light of technological advances, the protection of fundamental rights and freedoms, and the implications of rapidly advancing technology on our lifestyle and expectations have all contributed to a plethora of demands, many directed toward constitutional change.

Yet at the same time that all of these issues are identified as requiring constitutional changes, they remain part of the ongoing political process. That is, pending a constitutional resolution, these issues remain part of normal political and administrative agenda, and the question remains whether this "normal" handling might not, given the appropriate willingness to bargain and compromise, be completely adequate.

Renovations Preferred Over New Construction

One of the problems which has plagued Canadians during the constitution controversy is that there has been no clear agreement on whether our constitution needs to be completely rewritten, or substantially revised, or simply "fine-tuned". On the one hand, we have been exposed to a considerable amount of revolutionary constitutional rhetoric which leads both participants and spectators to anticipate massive, fundamental and sweeping changes. For example, the Task Force on Canadian Unity (Pepin-Robarts) recommended that "There should be a new and distinctive Canadian constitution to meet the present and future needs of all the people of Canada." This sort of language leads one to expect a completely new document, an effort directed toward rebuilding from the ground up, with the British North America Act relegated to the history books.

On the other hand, when the 11 first ministers met in the aftermath of the Quebec referendum of May 1980, the discussions focussed on a short list of a dozen items, not upon a complete root-and-branch revision, let alone the total replacement of the British North

America Act. With the failure of the First Ministers Constitutional Conference of September 1980, this short list was abandoned in favour of a resolution which addressed an even smaller number of items: patriation, amending formula, and charter of rights.

These developments raise a critical question in my mind: does Canada really need, and do Canadians really want, a totally new constitution? Or is the need instead for constitutional reform of a piecemeal and limited nature? Are we levelling the old building to start from the ground up with a masterpiece of concrete and glass, or are we seeking to renovate a fundamentally sound structure that presents certain remediable defects?

Several of the first ministers and many Canadians seem unconvinced of the need to undertake the writing of a completely new constitution. They feel, as I do, that the old house needs considerable renovation, but not to the extent that we would be further ahead tearing the whole thing down and starting again. This position is based upon the belief that the British North America Act is *not* an anachronistic historical artifact. The B.N.A. Act is in its content a Canadian document, shaped and molded by Canadians; the basic elements of parliamentary government and federalism contained in the Act are accepted as the cornerstones of the Canadian political system even by those arguing for a new constitution.

Over the past 115 years, the B.N.A. Act has undergone considerable change, both formal and informal, to meet the changing needs of Canadian society. For example, changes since 1867 have permitted the entry (on varying terms) of six of the present ten provinces. Major programs such as unemployment insurance, old age pensions, medicare, comprehensive social service plans and others have been accommodated by formal constitutional amendment or by federal-provincial agreement. The system of government that we have built upon the foundations of the British North America Act has, by and large, served Canadians well; with further amendments, it might well continue to do so for many decades. The British North America Act was in fact a "made in Canada" constitution.

Up until the events of this past fall (that is, the Supreme Court ruling and the federal-provincial accord), Canada was the victim of her own constitutional Catch-22. The very procedure by which we sought to obtain change, unanimity among all 11 governments, was the very thing in need of change. But this argument must not be pushed too far. It is quite right to point out that Canadians had been unable to agree on the particulars of a formal amending formula. However, this does not imply that procedures which frustrate proposed constitutional change are necessarily illegitimate. All written constitutions are difficult to change, because they are designed to make sure that fundamental changes to the political rule book will take place only when there is wide support for the proposed change.

The Canadian unanimity convention has not resulted in rigidity or deadlock. A comparison of Canada's constitutional history with that of the United States is most instructive in this regard. The British North America Act has been amended 25 times, and the United States Constitution 26 times. If anything, this comparison flatters the flexibility of the American record of constitutional amendment. Ten of their amendments took place immediately and were really an integral part of the original constitutional settlement, since then the pace has slowed considerably. There have been only three significant amendments since 1927, and not one of the 16 amendments since 1791 has affected in any fundamental way the basic structure of American government, or the division of powers between national and state governments.

In contrast, Canada has had 10 amendments to the British North America Act since 1927 (only five of which required the intervention of the British Parliament), and several of these affected the division of powers. Canadians have been able to make as many, or more, constitutional changes as Americans. Our need for a formal amending formula was not as an alternative to a futile and sterile deadlock but only for a formalization of accepted procedures, and this was accomplished at the First Ministers Conference on the constitution in November.

Reconciling The Irreconcilable

The Canadian political system is designed to go two different directions at once: it seeks to combine a parliamentary government with federalism. The implicit contradiction here is between the decentralization and the division

of responsibility between regional and national governments which is a central part of any truly federal system, and the centralization of responsibility which is the hallmark of the parliamentary form of government.

Just as the bumblebee cannot fly, according to the laws of aerodynamics, so Canada cannot be governed using two incompatible governing principles. Nonetheless, the bumblebee does fly and Canada has survived for 115 years; clearly the contradiction is not inevitably or immediately fatal. Yet there are consequences. A governing system such as ours, which seeks simultaneously to obtain the benefits of responsible parliamentary government and federalism, makes the politics of confrontation a recurrent and unavoidable reality.

Through the constitutional controversies of the past two decades, no one has seriously suggested that Canada should do away with either the parliamentary system or federalism. Canadians feel that for all its flaws and problems, the system has worked rather well in the past, and they do not seek to abandon either of these two basic components. Where differences of opinions arise is with regard to federalism itself. Unfortunately for Canada, there has never been a single guiding concept of federalism, but rather two contrasting visions have emerged: the nationalist vision, attacked by its critics as excessively centralist in its dynamics and inhospitable to regional diversities; and the provincial vision, which is criticized by its opponents as tending toward balkanization and a "checkerboard Canada", thus robbing Canadian nationhood of viability or substantive meaning.

The nationalist vision is held by many Canadians who accept the notion of federalism and of provincial governments, but wish to see a strong national government. They argue that federalism requires a central government with the power and authority to determine the priorities and policies of the entire country, and when conflicts arise, the national government should prevail. The provincial vision is held by many Canadians who accept the value of national unity and a central authority but wish to see strong provincial governments. They argue that federalism requires strong provincial governments to devise policies responding to the needs and interests of Canadians in the various sections of a strikingly diverse country, and when conflicts arise provincial governments should prevail.

In my view, Canadian federalism has survived and even flourished in past decades because it requires the partial acceptance of both viewpoints and the rejection of the idea that either one embodies the whole truth. It is psychologically satisfying but politically debilitating for the citizens of a federal system to champion either nationalism or regionalism; if either side ever really "wins", then both sides lose because federalism ceases to work. Federalism is a system for people who want to have their cake and eat it too; for people who can live with endless tradeoffs; for warriors who will fight under the grey flag of compromise in search of accommodation.

I think that one of the most innovative developments in Canadian government in recent years is one which was accomplished without constitutional amendment although its significance is greater than most of the changes which could be achieved through formal constitutional change. I am referring to the use of the federal-provincial conference. The development of federal-provincial conferences has facilitated the adaptation of parliamentary procedures to a federal system, although it has done so at some cost. For example, elected legislatures and citizens are sometimes reduced to bystander status by these essentially executive exercises. Since World War I, and with increasing regularity in recent years, formalized meetings between federal and provincial officials and representatives have proliferated to the point where literally hundreds of meetings are held each year. Over the years these meetings have resulted in thousands of agreements, ranging from the sharing of information on how to eradicate insect pests to constitutional amendments facilitating the handling of such serious social and economic programs as unemployment insurance and old age pensions.

Throughout all these negotiations, the only criterion for the resolution of conflicting points of view has been mutual agreement. In sum, the federal-provincial conference is a unique Canadian process which constitutes the very foundation upon which political reforms, constitutional or programmatic, must be based if Canada is to continue to reconcile the inherent differences between parliamentary government and federalism.

Ends Don't Justify Means

Democracy is not a set of political institutions, or a set of formal constitutional provisions, but a *process*, a way in which people actually behave in making decisions. I believe that countries are only as democratic as the means by which the most recent laws were made. Similarly, the parliamentary system and federalism are processes that depend more upon the way something is done than upon what is actually accomplished. Is it any wonder, then, that Canadians are concerned about how constitutional reform is accomplished as much or even more than about the actual content of those reforms?

Participation in the process of constitutional change has traditionally been limited to Premiers, Prime Ministers and their advisors; even legislatures have often participated in only a perfunctory way. There are a number of very good reasons for this. First, controversial constitutional change may imply or involve a redistribution of powers between the two levels of government, and require the assessment of those concerned with the exercise of this power to calculate the possible impact of such changes. Second, provincial and federal governments are the only bodies exercising sovereign power under (and therefore over) the existing constitution. Third, our parliamentary system is built upon the premise that citizens do not directly participate in making laws but rather confer that responsibility upon their elected representatives. Fourth, the historical precedent set in the original confederation settlement was that of provincial (then colonial) legislators negotiating one with another.

The traditional forum for constitutional negotiations has been federal-provincial conferences. One of the significant developments of the past two decades has been the way that increasing numbers of Canadians have become involved in the process of constitutional change, invading the precincts that had previously been reserved for a relatively small group of political activists. The first stage in this development process began in the early 1960s and culminated in the public enquiries of the Royal Commission on Bilingualism and Biculturalism. Large numbers of Canadians participated in these hearings, and although the commission ended by recommending *against* constitutional changes, and although the process generated discord as much as harmony (such as the now commonplace rhetorical demand "What does Quebec want?"), what was established was a precedent for popular consultation and involvement in major constitutional questions.

Public attention was diverted from the underlying constitutional issues generated by the new demands of post-1960 Quebec governments by Canada's hosting of the World Fair in 1967 and the highly nationalistic centennial celebrations of that year. The euphoria and enthusiasm generated by the "Spirit of Expo" contrast sharply and sadly with the present atmosphere of Canadian politics. However, even at the height of the centennial celebrations, Charles de Gaulle abruptly brought Canadians back to reality with his famous (or infamous) "Vive le Québec libre" speech from the steps of Montreal's city hall.

As a response to the controversy generated by the de Gaulle episode, and in an atmosphere of pending crisis, federal-provincial discussions on the constitution were held in 1967 and 1968. In retrospect, probably the most significant aspect of these meetings was the decision to televise the proceedings, which provided all Canadians with an opportunity to observe the deliberations of their national leaders. This set a precedent for a degree of public access to discussions on constitutional change that was unheard of earlier, but has since virtually been taken for granted. In January 1970, a joint committee of the Senate and the House of Commons was struck to consider the whole question of constitutional reform; it held 145 public meetings and listened to more than 1400 Canadians from many groups and organizations, thereby taking a further step toward popular involvement in the discussion of constitutional change.

Public reaction to the victory of the Parti Québecois in 1976 forced the issue of constitutional change onto the political agenda with even greater urgency. In this case, without waiting for elected officials to take the lead, private citizens and organizations responded by holding conferences, preparing proposals and organizing themselves into citizen groups. Prime Minister Trudeau responded to the growing public pressure for government action by striking a Task Force on Canadian Unity which immediately began holding public meetings across the country amidst great publicity and with a high degree of popular participation. The committee hearings on

the proposed Constitutional Amendment Bill in 1978, and the even more publicized public hearings on the 1980 Constitutional Resolution, fall within this growing pattern of popular access, with the proposals for popular ratification of constitutional change through referendums being a further logical extension.

While public participation was being facilitated and extended, a countertendency was developing. In a letter to the Provincial Premiers Conference written in 1976, in the introduction of Bill C-60 (The Constitutional Amendment Bill 1978), and in the introduction of the constitutional resolution of 1980, the national government sought to restrict drastically the number of participants in constitutional change by adopting the principle of unilateral action. The assumption was that constitutional settlement could be achieved, not through negotiated compromises with ten provincial premiers, much less through procedures which involve a wider concerned public, but by a small number of individuals within the national cabinet operating on the basis of decisions and calculations made almost entirely *in camera*.

The rejection of unilateral constitutional action as a justifiable means for constitutional reform was widespread. Eight provinces, the official opposition, the Supreme Court, and a majority of Canadians openly opposed the procedures set forth in the national government's constitutional resolution of 1980. The decision taken by Mr. Trudeau to hold a federal-provincial conference in November and the resulting agreement indicated that the national government was once again accepting the single most important element of our political system and indeed of the entire Western political tradition: the ends do not justify the means.

Breaking The Logjam

Although the national government's constitutional package of 1980 fell far short of the sweeping changes recommended in numerous proposals, the debate on even this limited number of items shook Canada to its very core. It is hard to imagine a degree of opposition to a proposal greater than that precipitated by the October 1980 resolution. That the provincial governments were not alone in rejecting the manner in which the national government was proceeding was evidenced by the actions of the official opposition in Parliament and dozens of citizen groups which campaigned openly against the resolution, arguing that a consensus should be reached among Canadians before any formal legal action was undertaken by the British government. However, it was not until the Supreme Court added its voice to the chorus of those attacking the procedure as unconstitutional, that all participants were willing to concede that the spirit of the law was more important than the letter.

All of the opposition to the national government's unilateral action did not in my view negate the validity of Mr. Trudeau's argument that someone had to cut the Gordian knot of unanimous agreement among the 11 governments. I applaud the initiative of the Prime Minister, not because of what he tried to do, but because it precipitated a Supreme Court decision that necessitated the development of a federal-provincial accord, and has forever broken that particular logjam. The Court's judgment made it clear that a critical part of Canada's constitution is made up of conventions. Their equation *Constitutional convention + constitutional law = the total constitution of the country* will go down in the history books as one of the most simple yet significant equations in Canadian political life.

Quotations from the Court's decision were used extensively at the November First Ministers Conference on the constitution by all eight dissenting provinces to justify and defend their constitutional status, the most popular being; "We have reached the conclusion that the agreement of the provinces of Canada is constitutionally required for the passing of the proposed resolution." The importance of constitutional convention was most dramatically illustrated by Saskatchewan Premier Allen Blakeney, who commented on the fragility of the federal government's legal arguments. He noted that both the federal and provincial governments were, at law, colonies and that it was "by convention and by convention only we're an independent and federal state. I say it's a pretty important convention, the total basis of Canadian political life today, but nonetheless a convention, not a law."

Over the past five decades, many attempts have been made to identify a precise definition of the degree of provincial consent needed for major constitutional change in those sections of the British North America Act not amendable in Canada because they touch upon national and provincial government powers. The amending

formula agreed to in November is in my view the best example of the classical compromise necessary to maintain a federal system of government. As have all previous formulae, the new formula gives due recognition to the federal nature of Canadian society, by requiring the agreement of a majority of representatives in the national parliament, plus a two-thirds majority of provincial governments representing at least 50% of the population.

Previous proposals, such as the so-called Victoria formula contained in the original federal government resolution, were flawed by the manner in which they treated provincial governments. The Victoria formula distinguishes between provinces on the basis of population, and sets up a special status for Ontario and Quebec. This discrimination was unacceptable to Western Canadians in particular, because Ontario and Quebec residents were given preferred status: not only would they legitimately control the vote in Parliament through their superior number of MPs but their provincial governments would then have been given a permanent veto no matter what happens to future population trends.

The formula agreed to by the Prime Minister and nine of the 10 provincial premiers does not discriminate among provinces because it does not give any province an absolute and perpetual veto. In this regard, it is far superior to the formula contained in the original parliamentary resolution. The problem with this formula, however, is the inclusion of a provision whereby provinces can opt out of constitutional changes which materially affect existing provincial powers. Whether or not this will become the Achilles heel of the new Canada Act has been the subject of considerable debate. My own opinion is that this provision will not result in incremental separatism, but rather it will guarantee provinces like Quebec, Newfoundland and Alberta the limited independence that they need to feel secure within Confederation. However, I think the likelihood of this provision being used often is very remote.

The inclusion of a charter of rights and freedoms in the resolution has brought to the forefront of Canadian politics a long-standing debate on how best to preserve rights and freedoms. All Canadians have always agreed that the rights and freedoms mentioned in the resolution should be protected; indeed, from the outset of this debate much of the argument has been on whether the list is long enough.

The real disagreement between supporters and opponents of an entrenched charter of rights is over whether these rights are best protected and extended, as they have been for hundreds of years, by elected representatives, or whether they should be protected by the courts as the original federal resolution proposed. The compromise agreement arrived at in November, which entrenches the charter in the constitution but allows governments to over-ride those provisions by including a "notwithstanding" clause in future legislation, indicates the lack of consensus on this issue among politicians and even the population as a whole. It also indirectly provides the Quebec government with the necessary autonomy to meet the demands placed upon it by virtue of its unique responsibilities for French language and culture.

Those who argue that this legislative override somehow denigrates or denies these rights and freedoms are rejecting our own historical experience, which indicates that provincial legislatures have been very careful not to abuse this power. Alberta's Bill of Rights, which contains a "notwithstanding" clause, is a case in point; since 1971, when Premier Lougheed made a provincial bill of rights the first piece of legislation enacted by his government, the legislature has never used this power. The Alberta experience, plus the fact that federal and provincial legislatures have a good although imperfect overall record of protecting human rights, suggests that the compromise solution is an excellent one. I am convinced that this compromise is one of those rare occasions when the lack of a consensus has resulted in the development of an accommodation which is superior to either of the alternatives. The new charter will guarantee Canadians their basic freedoms and rights, give them access to the courts for redress. and at the same time provide their elected officials with some flexibility in dealing with unforeseeable events and circumstances that might arise in the future.

What Lies Ahead?
Constitutional issues may take a back seat to economic issues and to the everyday tasks of governing for a time, but they will return again within a year or two or perhaps even within a few months. For those outside central

Canada, alienation will continue until structural change has taken place. For the people of Quebec, yet a further soul searching identity crisis and a rationalization of the existing division of powers remains necessary.

In contrast to conventional wisdom, I believe that institutional reform of a constitutional sort is absolutely necessary to resolve the problems of regional alienation, while administrative accommodation is a more appropriate way to handle disputes over the division of powers.

Institutional reform:
Basically, four types of reform have been suggested to rectify the incapacity of our current national institutions to generate policies which are acceptable to Canadians residing outside of central Canada. These four are: (1) electoral reform; (2) House of Commons reform; (3) Senate reform; and (4) institutionalizing federal-provincial conferences through the creation of a Council of Provinces.

The first three of these proposed changes all address directly the problem of "regional representation" within the process of national policy-making. They seek to strengthen the national government through ensuring that the national decision-making will be undertaken by legitimate representatives from all parts of the country, a situation which has not existed for some time. The fourth of the proposed reforms is really directed toward a different problem, one that deals with the question of conflict between federal and provincial governments and the need for an institutionalized means of resolving this conflict. This last type of reform is therefore distinctly different from the first three, which seek to structure the national government itself so as to generate regionally sensitive national policies.

Existing institutions do not accommodate regional representation. The Senate has been fatally flawed from the beginning, not only because Senators are appointed rather than elected, but also because they are appointed by the national government only. The existing Senate is further flawed because of the manner in which it provides for the representation of the several provinces (24 for Ontario, 10 for New Brunswick, 6 for British Columbia, etc.). The result has been a near total loss of credibility.

The House of Commons as a regional representative body has always suffered two major disadvantages. First, it is a confidence chamber, with the survival of the government resting on the support of the Commons. This means that the Commons must be a chamber dominated by tightly disciplined parties. Second, the Commons is a chamber based on representation by population, a feature fully appropriate for its role as a confidence chamber, but not for regional representation purposes.

The electoral system used for elections to the House of Commons has dealt a further blow by regionalizing party representation, and reducing all so-called national parties to the status of regional parties. This failure of the Commons has carried with it that great Canadian makeshift, the regionally representative cabinet, which can no longer be representative even in the sense of including within its ranks at least one credible elected representative from each province or region.

The two most promising proposals for rectifying structural deficiencies in our national institutions are electoral reform and Senate reform. Electoral reform holds out hope for immediate solutions to immediate problems; for example, it would ensure that both government and opposition had some members of parliament from all regions of the country, and would thereby permit the government to appoint elected representatives from all regions to the Cabinet. However, it is in my opinion only a partial solution, an attempt to paper over a serious crack in the very foundation of our political system.

More potentially useful are proposals for Senate reform, which I believe hold out greater promise for long-term solutions. Many suggestions have been made that would change the Senate with regard to terms of office, or method of selection, or basis of representation. One interesting possibility is the direct election of Senators, which I believe could be done without deleteriously affecting federal-provincial relations or the operations of responsible government.

Over the past four years, something of a consensus has emerged regarding the need for an institutional accommodation of intergovernmental conflict. Such an idea has been expressed in almost all the major proposals put forward in the past four years, such as the findings of the Pepin-Robarts Commission, the Quebec Liberal Party's

"Beige Paper", the proposals of the government of British Columbia, the Canadian Bar Assocation, the Ontario Advisory Committee, and others.

The chance of achieving some reforms of this sort in the immediate future is very good, as there seemed to be general agreement on this issue by officials of all 11 governments in the summer of 1980. However, this type of reform should not be confused with, or substituted for, increasing the ability of national institutions to cope with regional diversity; intergovernmental mechanisms are not sufficient for this purpose. The institutionalization of federal-provincial conferences, without the reform of central government institutions in the direction of more effective regional representation, could further erode the credibility and capacity of the national government.

Rationalizing the division of powers: The main concerns of the people of Quebec in the future will be the same as they have been for decades: special status for the government of Quebec as the legitimate representative of one of the two founding peoples of Canada; a devolution of certain powers from Ottawa to Quebec City; and, the protection of the French language and culture. These three interlocking and interrelated concerns remain a priority for René Lévesque as they did for earlier premiers. They have been echoed in Quebec government pronouncements since the November constitutional accord just as they were in 1971 when Robert Bourassa rejected the Victoria Charter.

The Quebec government's dramatic gestures of lowering the provincial flag to half-mast on all provincial government buildings and adjourning the Quebec Assembly following the near-unanimous parliamentary approval of the Canada Act resolution in December, and their decision to appeal the constitutionality of the resolution has cast a dark shadow over Canada's new constitution. Although it is impossible to predict the impact of this action, it is unlikely that Mr. Lévesque's government or the Parti Québecois will be able to mount a credible Separatist campaign because of the Accord. There are four reasons for this observation. First, Mr. Lévesque personally signed the Eight Provinces Accord in April 1981, thereby sanctioning the very amending formula he now opposes. Second, opinion on constitutional reform within Quebec is now fragmented as the Quebec Liberal Party no longer supports the Parti Québecois government's position on the constitution. Third, the MPs from Quebec are committed to supporting and defending the resolution. Fourth, and most important, it is unlikely that any significant issues will arise in the near future whereby Quebec will feel the need to utilize a constitutional veto. It is most regrettable that the Quebec government opposes the implementation of the Canada Act; however, I do not think their opposition should postpone implementation of the new constitution because there is little likelihood that the passage of this resolution into law will act as a catalyst to increase Separatist sentiment in Quebec.

Practically speaking, most of Quebec's constitutional concerns deal with division of power issues. And, it is still an open question as to whether these demands can or should take place through constitutional reform. I am convinced that most division-of-power disputes can probably be dealt with through administrative agreement and policy coordination. The flexibility of agreements which can be entered into and changed as the situation warrants is very much the better way to handle division-of-power disputes. No government, be it national or provincial, is anxious to give up for all time its ability to respond to changing circumstances.

The position of a national or provincial government on issues such as communications, economic development, immigration, manpower training, procurement policies, etc., is constantly in a state of flux and must be changed and adapted as circumstances warrant. In the past, national and provincial governments have developed and entered into numerous agreements which have coordinated national and provincial policies. The federal government's agreement with Quebec on immigration policy, and with the western provinces on the pricing of oil and natural gas, are excellent recent cases in point.

To argue that constitutional reform is the only, or the preferred, way to deal with division-of-power issues is to base permanent arrangements on the foundations of passing circumstances, and to handcuff and circumscribe the capacity of Canadian political leaders to respond creatively to changing situations. Incremental political accommodation is not a perfect solution, but its flexibility makes it preferable to entrenched constitutional adjustments, save where the need for formal change

is clearly established and mutually agreed to.

Just as renovations are often necessary to a home if it is to meet the changing needs of a growing family, so our constitution must be altered from time to time to acknowledge and accommodate the shifting stresses and demands of our political life. In addition, Canada has been making do with a formal constitutional structure that was, from its inception, ill-suited to the diversities of our country. The "Westminster model" fitted poorly with the flexibility and openness needed in a federal system, and we have had to muddle through with makeshift solutions.

But muddling through is no longer good enough, given the stresses placed upon our political structures by recent developments. The growing complexity of the role of governments in an increasingly complex and technological society, the dynamic assertiveness of post-1960 Quebec, and the shift of economic activity from the centre to the West must be given political expression. It is foolish to think that we can get by with putting a penny in the fuse-box when the house really needs rewiring.

Practical solutions to these structural problems are available; Canadian politicians, academics and citizens have evolved a variety of schemes and models to strengthen national institutions and to facilitate better federal-provincial relations. Our imagination has not been lacking; it is only a matter of whether or not we have the political will to go ahead.

Canada's political history is not spectacular, but it gives ample evidence of our ability to make significant and substantive changes when the need arises. The only reason for undertaking constitutional change in the first place is to improve institutional structures and processes which will be capable of developing the policies needed to meet the political and economic challenges that lie ahead of us. Structural changes can reduce the need and the demand for a substantive constitutional rearrangement of the division of powers, at least bringing it to a more manageable level.

For me, Canada exists and will continue to exist because our political system accommodates diversity within a larger union. It allows Québecois, Albertans and Newfoundlanders to retain a pride in their provincial identities, and to be Canadians at the same time. The challenge before all of us is to redesign our political structures so as to reflect better the federal nature of our country, thereby increasing our ability to realize our potential regardless of the changed and changing circumstances of our second century.

Spectrum is a quarterly publication of Canadian Imperial Bank of Commerce that provides a platform for the free expression of informed opinions by persons of recognized eminence in their particular fields.

A French edition of *Spectrum* is available, under the title *Tribune*. Copies of both publications may be obtained by writing to the Editor.

Readers' comments and views about *Spectrum* and its topics are invited. Your response is a challenge.

P. Bryan C. Beauchamp,
Editor, *Spectrum*
Canadian Imperial
Bank of Commerce
Head Office, Commerce Court
Toronto, Ontario, Canada
M5L 1A2

CANADIAN IMPERIAL
BANK OF COMMERCE

1981

SPECTRUM

CANADIAN IMPERIAL
BANK OF COMMERCE

Volume 2, Number 2, 1981

Dealing with Stress in A Depressed Economy

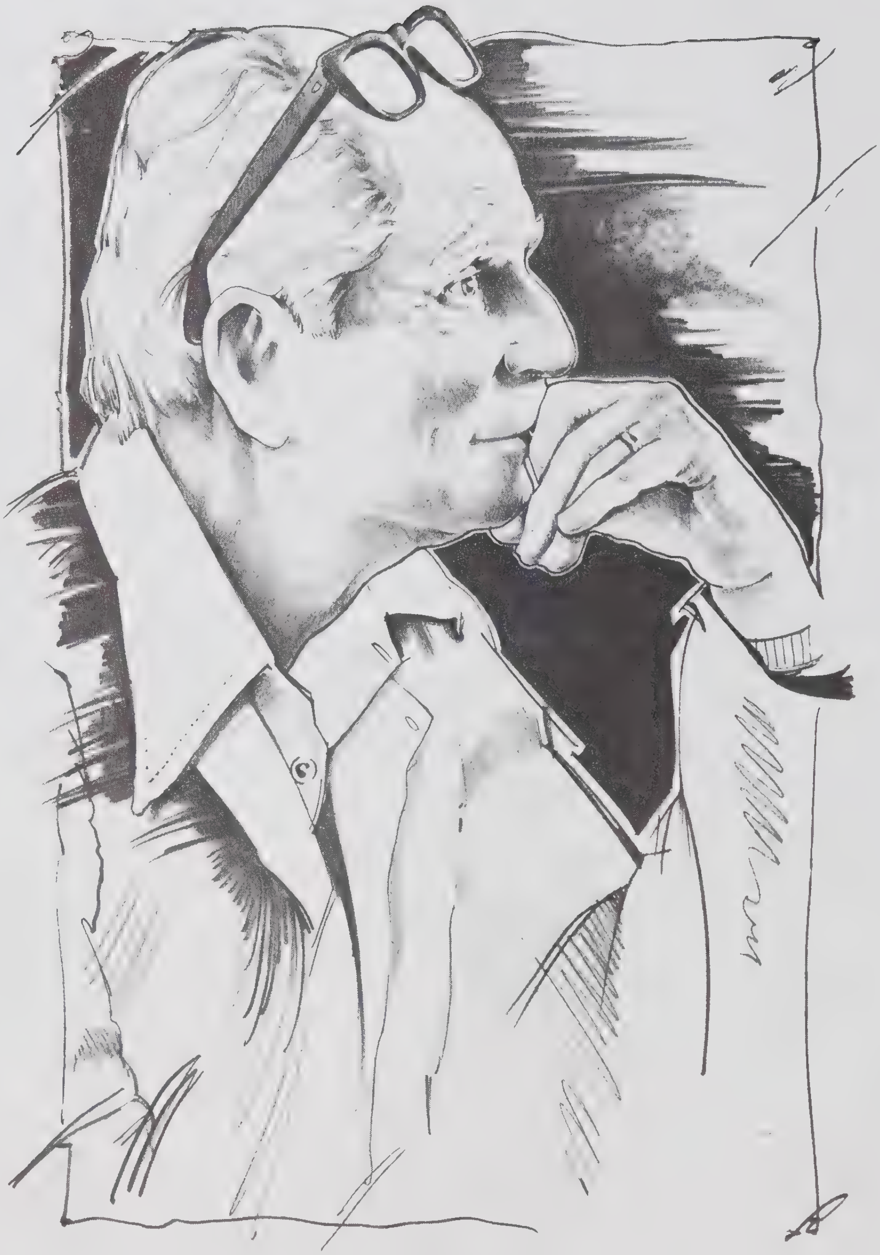
by Dr. Hans Selye, C.C.

Dr. Hans Selye, C.C., M.D., Ph.D., D.Sc., is recognized as one of the world's most noted authorities in the field of human stress.

Born in Vienna in 1907, he studied in Prague, Paris and Rome. He received his medical degree and his Ph.D. in Chemistry from the German University in Prague, and his D.Sc. at McGill University in Montreal.

Dr. Selye has served since 1945 as Professor and Director of the Institute of Experimental Medicine and Surgery at the University of Montreal. He now holds the position of Emeritus Professor at the same university and is President of the International Institute of Stress and the Hans Selye Foundation, both established by him in Montreal.

Dr. Selye is the author of 38 books and more than 1,700 technical articles. He holds 20 honorary degrees from universities around the world. He is a Fellow of the Royal Society of Canada and an Honorary Fellow or Member of sixty-three other scientific societies. The holder of many international awards, Dr. Selye has been made a Companion of the Order of Canada, the highest decoration awarded by this country.



In these times, characterized by a rapid increase in the rate of medical and social developments, research on stress and adaptation to change assumes particular importance in consideration of health and disease.

We can no longer count on "having finished our training" for our work or on "having arrived at our goal" in society; nowadays, the skills and knowledge demanded by any job, as indeed the goals of society itself, are developing (or at least changing) at such an unprecedented rate that our first objective must be to learn how to cope with the stress of adaptation to change as such, both in our work and in our social goals. Only thus can we hope to succeed in overcoming the distressing loss of stability, while learning how to enjoy the challenge of adjustment to ever-changing responsibilities, possibilities and aspirations.

Of course, the need to adjust to constant change arises from the fact that the more we know, and the larger the number of people who acquire knowledge, the faster the pace of development, or at least of exploratory change, in all fields. This situation is primarily created by recent progress in mathematics, physics, chemistry and engineering with its resulting industrial implication: computers, automation and extraordinary acceleration in the rate at which people and information travel and alter the world.

All this is endurable, and sometimes even enjoyable, but only within the limits of human adaptability. In the final analysis, the psycho-social consequences of the struggle for mastery over our inanimate surroundings are essentially physiological and medical concerns.

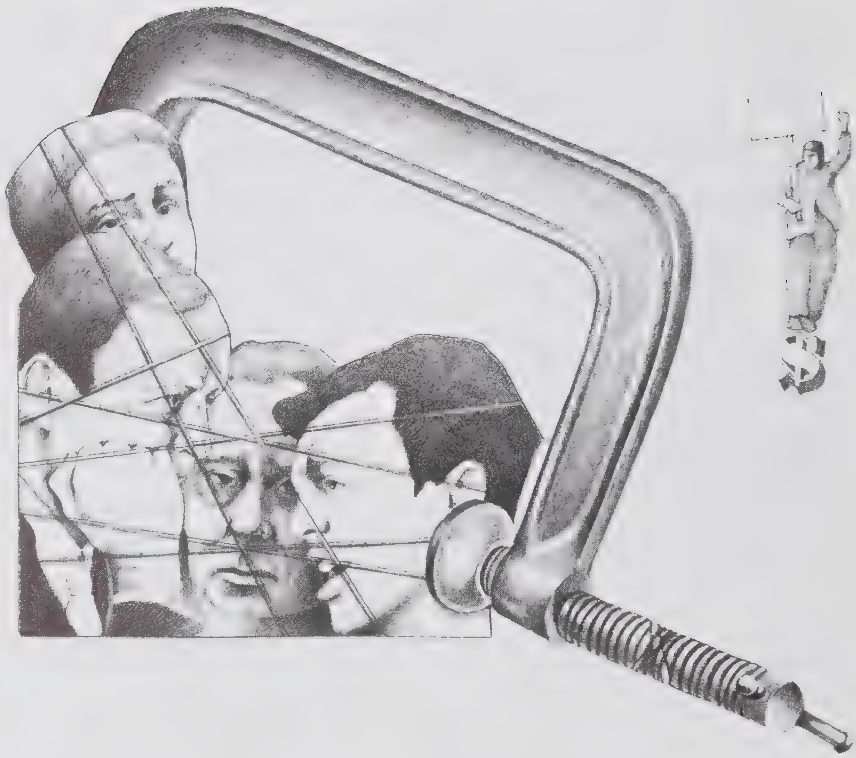
For the reasons just mentioned, interest in stress as it influences the lives of individuals, and even entire societies, has grown enormously during the past few decades. There has been a phenomenal increase in the number of laboratories, technical articles, books, journals and congresses dealing with the far-reaching implications of stress in virtually all fields of human endeavour, including medicine, physiology, psychology, psychiatry, sociology and philosophy. Nowadays, even the lay press, television and radio are constantly discussing stress, although frequently without real awareness of the objective scientific proofs upon which certain conclusions are based.

The danger of "a little learning" in discussing stress is inherent in the fact that, unlike other research subjects, stress (as defined in medicine) affects every aspect of life, in health and disease; indeed, it exerts an ever-increasing influence upon even the most sophisticated activities of the mind. A real understanding of stress is, therefore, essentially dependent upon a holistic and integrative approach; no special aspect of it can be analyzed in depth without a full realization of where and how it fits into the whole picture.

Stress and Economic Depression

While stress in human beings is generally occasioned by what may be termed "personal concerns", there is undoubtedly a correlation between stress and the state of the economy. In fact, these personal concerns are modelled by the whole economic, social, political and cultural system which creates and nourishes them.

Scientifically speaking, there is no difference between one type of stress and another except the factors which cause the stress – the "Stress Origin". The Stress Syndrome – hormone and nervous reactions – is always the same. Following this line of thought, we can assume that there is no fundamental difference between the stress experienced in "boom times" and that experienced in a period of economic depression, except perhaps a difference of degree. Boom-time stress causes positive stimulating reactions, while depressed-economy stress engenders negative reactions due to an enforced lowering of standards and expectations. Nonetheless, the fact is that whether stress is being felt as a result of joyful or painful experiences, it still *is* stress and still produces the same effects. Similarly, there is no reason to think that the kind of stress produced by the "stagflation" of the Eighties is markedly different from the stress that was engendered by the Great Depression of the Thirties.



Stress caused by economic conditions can exhibit itself in group, as well as individual, reactions. Evidence of "group stress" can be discerned in the media, in political action and in cultural manifestations. I do not think it is possible to measure scientifically the extent to which stress induced by economic conditions affects our sociopolitical attitudes, but there is no question that it *can* do so. My observations lead me to believe that economic stress leads to conservatism and fear of change, rather than to radical social and political activism.

A recent study of young people's reactions to a depressed economy, sponsored by the Quebec Ministry of Education, reveals that "the tightening of economic conditions generally models the values towards a certain conservatism. People search for economic as well as moral security. Consequently, traditional values (for example, the family) and ideological pragmatism fill the whole space of young people's conceptions". However, the study concludes that "this may be only a temporary phenomenon which may disappear at the first sign of change in the economic situation".

Stress is not always harmful

Absolute freedom from stress is death. Contrary to popular opinion, we must not – and indeed cannot – avoid stress. Stress is the spice of life. Since it is associated with all types of activity, we would avoid it only by never doing anything. But who would enjoy a life of "no runs, no hits, no errors"? Besides, certain types of activities have a curative effect and actually help to keep the stress mechanism in good shape.

It is common knowledge that occupational therapy is one of the most efficient ways of dealing with certain mental diseases, just as exercise of your muscles keeps you fit. It all depends on the type of work you do and the way you respond to it.

The uninterrupted leisure of enforced retirement or of solitary confinement – even if the food and accommodation are the best in the world – is certainly not a desirable aim.

What is work and what is leisure?

Work is what we *have* to do; play is what we *like* to do. Even reading the best prose or poetry is work for the practising literary critic, as tennis or golf is work for the paid professional. Yet, the athlete may read for relaxation, and the man of letters may engage in sports in order to relax. Fishing, gardening, or almost any other occupation is work when you have to do it for a living, but it is play if you do it for fun. The affluent executive would not think of moving his heavy furniture, but he will go regularly for a "work-out" at the gym in his expensive club.

Work is a basic biological need of man. The question is not whether we should or should not work, but what kind of work suits us best. In order to function normally, man needs work as he needs air, food, sleep, social contacts or sex. Few people would enthusiastically welcome the discovery of test-tube babies making sex superfluous; so let us not look forward with eager anticipation to the days when automation will make all work redundant.

The Western world is being enfeebled right now by the insatiable demand for less work and more pay. Less work to get more time for what? More pay to spend on what?

Few people give much thought to what they will do with their free time and extra money after they have achieved a comfortable income. Of course, there is such a thing as a minimum living standard; but in practice, the urgency of the clamour for improvement does not depend so much upon the number of working hours or the salaries earned as upon the degree of dissatisfaction with life. We could do much – and at little cost – by fighting this dissatisfaction.

As I pointed out in a recent editorial in our Institute's new journal *Stress*, unless we find a solution soon, people in our cities are in danger of becoming exhausted by the continuous stress of strikes and violence. It is my view that the solutions to these problems will have to come from sociologists, psychologists and political scientists. These specialists may pay closer attention to the deteriorating health of the nation brought about by chronic industrial unrest.

We in the medical field can only deal with situations where the politicians and sociologists have already failed. Where stress is inevitable and hits everybody, we can only devise methods of fighting it with certain drugs or hormones.

What happens to people during labour disputes is exactly what happens under any other unfavourable stress situation – the development of disease of stress, such as gastric and duodenal ulcers, high blood pressure, allergies, mental breakdown or heart attacks.

It is apparent that not all people are affected in the same way or to the same degree. This depends on a person's genetic predisposition to one disease or another. But everyone subject to prolonged stress suffers, be it only a migraine headache or a simple pain in the neck.

Homo faber

Why should we work so hard to avoid work? The French philosopher, Henri Bergson, justly pointed out that it would be more appropriate to call our species "Homo faber" (the making man) than "Homo sapiens" (the knowing man), for the characteristic feature of man is not his wisdom but his constant urge to work on improving his environment and himself.

The proper goal of man is not simply to work as little as possible while earning enough to acquire security, so that he will never have to work much harder. For the full enjoyment of leisure, you have to be tired first; as for the full enjoyment of food, the best cook is hunger.

I urge people not to live by the cherished slogans "There is more to life than just work", or "You should work to live, not live to work". This sounds pretty convincing, but is it really? Our aim should not be to avoid work but to find the kind of occupation which, for us, is play. The best way to avoid stress is to select an environment (spouse, employer, social group) which is in line with our innate preferences, and to find an activity which we like and respect. Only thus can we eliminate the need for constant adaptation that is the major cause of stress.

Admittedly, it is difficult to get much satisfaction out of boring, routine jobs, and those who can do nothing else may be justified in living by the slogan "less work and more pay". Fortunately, however, most occupations do not fall into this category. Many people suffer because they really have no particular taste for anything, no hunger for achievement. These – not those who earn little – are the true paupers of mankind. What they need more than money is guidance.

Those who *could* allow themselves the luxury of permanent idleness are rarely idle; they do not want to retire just because "they can afford it". Although they have enough money to satisfy all their needs,they do not consider their work as an obligation or a duty, but as a privilege, a fascinating play which gives them enormous satisfaction.

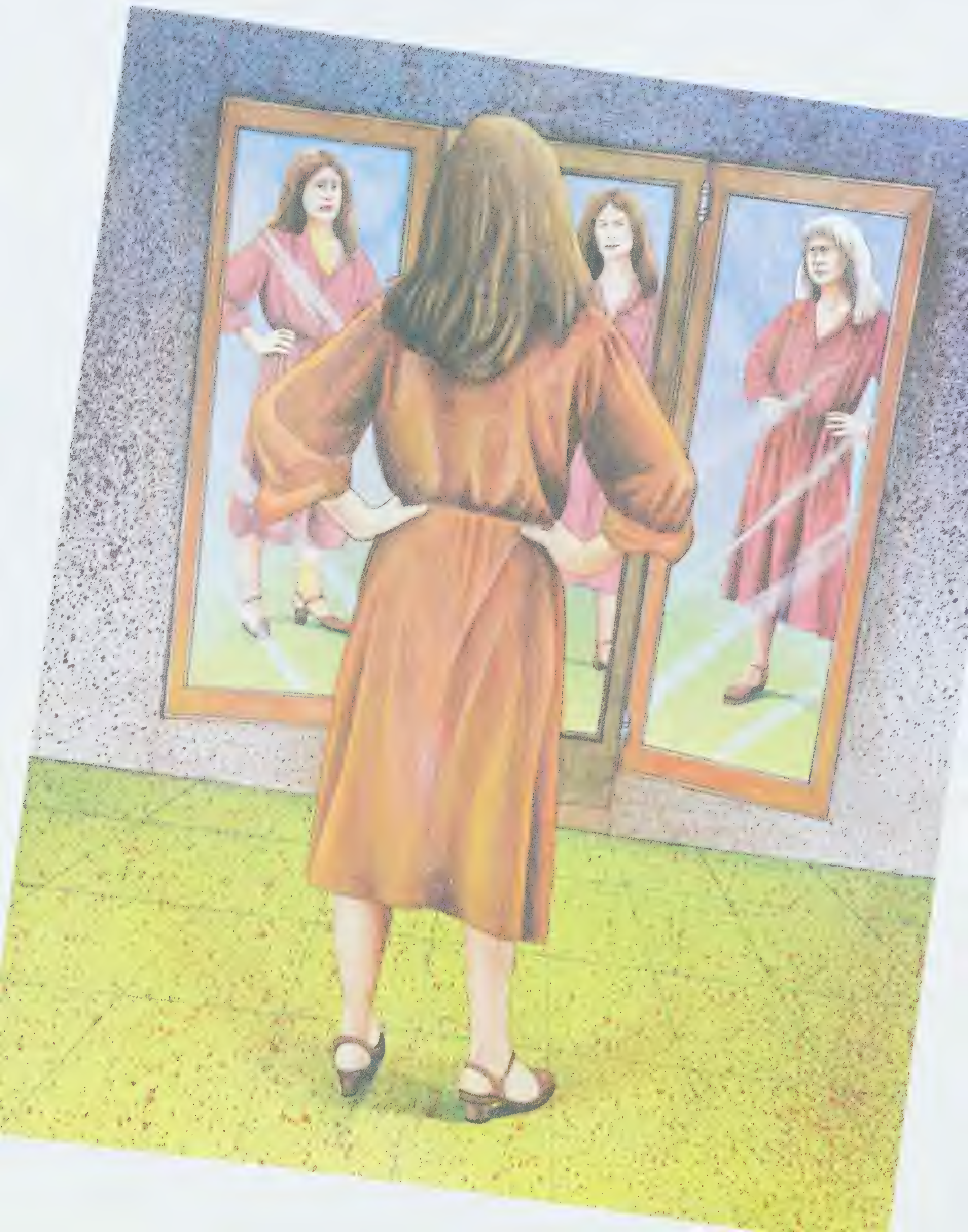
Stress by aging

Speaking about the leisure of retirement, let me remind you that there is a close relationship between stress and aging. Stress, as I have said, is the non-specific response to any kind of activity at any one time; aging is the sum of all the stresses to which the body has been exposed during a lifetime.

A newborn baby, while crying and struggling, is under considerable stress but shows no sign of aging, whereas a man of 90, quietly sleeping in his bed, is under no stress but shows all the signs of aging.

Each period of stress, especially if it results from frustrating, unsuccessful struggles, leaves some irreversible chemical scars (think of them as insoluble precipitates of living matter) which accumulate to constitute the signs of tissue aging. But successful activity, no matter how intense, leaves virtually no such scars. On the contrary, it engenders the exhilarating feeling of youthful strength, even at a very advanced age. Work wears people out mainly through the frustration of failure. The most eminent figures in any field of activity can continue to work creatively in old age.

Think of the achievements of Leonardo da Vinci, Pablo Casals, Winston Churchill, Albert Schweitzer, Henry Ford, Charles de Gaulle, Bertrand Russell, Konrad Adenauer, Pablo Picasso, Henri Matisse, Arturo Toscanini and – in my own profession of medical research – the Nobel Prize winners, Albert Szent-Gyorgyi, Otto Loewi, Max Waksman, F. Payton Rouse, Otto Warburg. All these men continued to be successful – and, what is more important, happy – well into their seventies, eighties and even nineties. Of course, none of these people ever "worked" in the sense of work as something one has to do to earn a living but does not enjoy. Rather, one might say that they lived a life of fulfillment by doing what they liked to do.



It is true that few people belong to this category of the creative elite; this degree of success in meeting the challenge of stress cannot serve as a basis for a general code of behaviour. But you *can* live longer and more happily by working hard along modest lines if you have found the right activity and are reasonably successful at it.

When I got into medical school – somewhat prematurely at the age of 18 – I was so fascinated by the possibilities of research on life and disease that I used to get up at four o'clock in the morning to study in our garden until about six in the evening, with very few interruptions. My mother knew nothing of biological stress, but I still remember her telling me that this sort of thing could not be kept up for more than a couple of months and would undoubtedly precipitate a nervous breakdown. Now I am 74. I still get up at four o'clock in the morning and still work until four o'clock in the afternoon, with few interruptions; yet, I am perfectly happy leading this kind of life. I have no regrets.

Stress and the average man

I believe that this way of life is applicable to almost any productive occupation. A carpenter can have the satisfaction of success and fulfillment by looking at a well-made table; a tailor, a shoemaker, can get fun and a feeling of fulfillment from making a suit or a pair of shoes that his customers admire. Even a hunting dog is proud to bring in his quarry unscathed; just look at his face and you will see that his work has made him happy. Only the stress of frustration, or lack of purpose, can spoil the satisfaction of performance. The art is to find the job that you like best, the work for which people will honour you. Man must have recognition; he cannot tolerate constant censure, for that is what makes work frustrating and stressful.

With the continued progress of science and automation, most of the tedious, unpleasant activities will no longer be necessary, and more people will have to worry about what to do with their leisure time. Soon we will be able to cut down obligatory working hours to a point were *work deprivation* will become our major problem. If man has no further incentive to work out his role as "Homo faber", he is likely to find destructive, revolutionary outlets to relieve his basic need for self-asserting activity. We may eventually be able to solve our age-old problem of having to live by the sweat of our brow, but the deadliest enemy of all utopias is boredom. What we shall have to do after science makes most "useful work" redundant is to invent new occupations.

On the endless voyages of the old sailing ships, when there was often nothing to do for weeks, the sailors had to be kept busy scrubbing the decks or painting the woodwork so that they would not mutiny just for the relief of boredom. Let us start preparing right now not only to fight things like crime and pollution, but also to combat boredom. Let us begin a full-scale effort to teach "play-professions" – the arts, philosophy, craftsmanship, science – to people everywhere. There is no limit to how much man can work on the perfection of his own self. (I have spent years formulating specific proposals for the way this should be done, but today it is too late to spell out my utopia.)

Stress and motivation

Many therapeutic techniques can help us indirectly by improving our physical and mental fitness. Among these, the counsel most commonly given is to relax and refrain from any but the most unavoidable activities, or to seek diversion in leisure and play. However, this kind of advice is not always appropriate, because active people are particularly dependent upon finding outlets for their pent-up energy, and cannot relax or play continuously without suffering from the feeling that they are wasting their time.

For persons with an irrepressible drive to seek stress, it is much easier to find some comparatively unexacting diversion than to do nothing. But because the so-called "leisure occupations" – competitive efforts and outstanding achievements in sports, social, educational and civic events – tend to become highly goal-oriented, they represent a poor antidote to the emotional stressors of daily work. This problem is particularly important for those who are approaching or have reached the retirement age and simply cannot go on utilizing their energy in the way to which they have become accustomed. As the progress of technology increasingly shortens work hours for most standard occupations, semi-retirement will be possible virtually as soon as a career begins. Yet, not everyone knows how to play or to occupy additional leisure time with the proper passive enjoyment of music, painting, sculpture, travel or spectator sports; hence, many people seek to release their pent-up energy through such dangerous outlets as drugs, violence and other forms of destructive behaviour.

It would be very wrong indeed to shield our children against every stressful experience. In fact, I would be tempted to suggest that many of our present social difficulties with children are due to our having spoiled them too much.

Children who have never had to work or never had to follow any discipline, who have always been allowed to do what they want when they want, who have never been encouraged to participate in strenuous sports or severely scolded for being lazy with their schoolwork, would have to be quite exceptional beings to find satisfaction in adult life. As much as I deplore the tendency of over-ambitious parents to spur their children on to accomplishment beyond their capabilities, I also feel it objectionable to let children grow up without guidance. Too often parents who have not been able to accomplish much themselves want to gain a sense of achievement through the reflected glory of their successful children. Too often the permissive parent allows his children to behave as they please because he is too weak to accept criticism of being strict – even if he knows the strictness would be better for the children. In suggesting general rules of conduct, I can only apply to children what I have previously said about adults: help them to find some worthwhile but attainable aim in life and try to direct them towards it until they acquire enough experience to make their own way.

Social implications

I have tried to outline, from the results of my lifelong inquiry into the nature, mechanisms, and prophylaxis of stress, the way I see the relationship between stress, work and leisure. Perhaps this outline could serve as a basis for the planning of a better, healthier philosophy than that which guides our society now. I think we should adapt our moral code and value-judgments to fit the exigencies of the times to come. But I do not feel competent to preach what I have learned. Besides, it would be contrary to my basic predilection for professionalism, for sticking to what we can do well. I have been trained to do medical research. Laboratory work on stress can furnish a solid scientific basis for social improvements. But what is needed now are sociologists and psychologists who could prepare the territory by re-orientating the motivation of the public. Then we shall need the media for driving the lesson home; and after that we shall require practical politicians who can translate the fruits of medical research and psychological re-orientation into terms of a national or even international policy and code of behaviour. At present, this is a dream, but you must first be able to dream before you can even try to make your dream come true. The conquest of smallpox, the invention of television, a trip to the moon were all merely dreams before they became realities. Let's be optimists; the world is full of talented people.

The recognition of talent
No society can be entirely just; ours is certainly not. Unfortunately, there are two types of people who exert immense influence, and their methods and aims are often at odds.

There are those who like to produce; to create just for the love of creation, but also because any good work – a symphony, an industry, or a well-made pair of shoes – earns gratitude, recognition and honour. The producers are busy producing; they have not much time or taste for anything else.

Then, there are the schemers and plotters who work only for influence and power; some of these are ruthless, others are idealistic; but, for them, retaining influence and staying in power must be the first aim. What is the use of the best ideas if they cannot be put into action?

One may ask: if the producers are so ingenious, creative and dedicated to progress, couldn't they beat the unproductive plotters at their own game? In theory, yes, but not in practice. The producers usually have greater intellectual gifts than the schemers, but they cannot use them for this kind of activity because they have no respect for it; and if they overcame their aversion, their creativity would soon wither. I am afraid the two types of activities are not naturally compatible.

How to enjoy the stress of life
More than anything, man needs approval and self- esteem; he fears censure and contempt, with the resulting sense of frustration which is the worst kind of stress. Scientists enjoy, no less than other people, an approving pat on the back and, according to current public opinion polls, they are on the whole the most highly honoured class of the population.

Their work requires a great deal of dedication. Unfortunately, like other people in creative positions who strive for excellence, scientists have all-too-little time to spend with their families. Their wives – like those of most people dedicated to any cause – are tempted to complain about husbands who care only for their beloved lab, plant or office. Those dedicated to creative accomplishment can always answer with Richard Lovelace, the English renaissance poet: "I could not love Thee, Dear, so much, loved I not honour more". For even love, to be valuable, must be offered by someone who *is* someone.

I have discussed the dangers and the benefits of stress, the importance of finding the proper proportions between work and leisure and, most essential of all, the need to reconcile them by selecting the kind of work which you can think of as play. We must find the right balance between the excessive or abnormal use of our body, which "overheats" its motor, and the lack of use that makes it rust. To function well, you must first warm up, but not to the point of exhaustion. I do not preach of a life of leisure; we should provide an outlet for our talents, but at all cost we must avoid frustration by not attempting that which is beyond us.

Stress is the price that mankind has to pay to survive as an animal; we now pay the same price to accomplish what we consider great things. We must understand the relationship between what we *want* to do and what we *can* do, between the significance of challenges we rise to meet and the price we will have to pay as a consequence. Our goals and priorities should be established according to our recognition of this relationship.

Perhaps the best advice I can offer anyone needing help with the stress of life can be summarized in a jingle which I should like to quote – first in French, since it sounds better in the language in which it was composed:

> "Lutte farouchement pour ce que tu crois un noble but, mais abandonne tout effort quand tu te sais battu."

In English, it reads:

> "Fight for your highest attainable aim, but do not put up resistance in vain."

The General Theory of Stress as propounded by Dr. Selye.

The stress concept was first described in a paper I wrote for publication in the July, 1936 issue of *Nature*. Described as "a syndrome produced by diverse noxious agents" it subsequently became known as the *General Adaptation Syndrome* (G.A.S.), or biologic stress syndrome. In the same paper, I suggested the name *alarm reaction* for the initial response, arguing that it probably represents the physical expression of a generalized "call to arms" of the body's defensive forces.

The *alarm reaction*, however, was evidently not the entire response. Upon continued exposure of an organism to any noxious agent capable of eliciting this reaction, a stage of adaptation of resistance ensues. In other words, no organism can remain continuously in a state of alarm. If the agent is so damaging that continued exposure becomes incompatible with life, the animal dies during the alarm reaction within the first hours or days. If it manages to survive, the initial reaction is necessarily followed by the *stage of resistance*. The manifestations of this second phase are quite different from – indeed, often the exact opposite of – those characterizing the alarm reaction. For example, during the alarm reaction, the cells of the adrenal cortex discharge their secretory granules into the bloodstream and thus become depleted of corticoid-containing lipid storage material; but in the stage of resistance, the cortex becomes particularly rich in secretory granules. Whereas in the alarm reaction there is an increase in the concentration of cellular elements in the blood, along with an abnormally small amount of chloride, and the breaking-down of tissue, during the stage of resistance there is a dilution of cellular elements, an abnormally large concentration of chlorides and a build-up of tissue.

Curiously, after still more exposure to the stress-producing agent, the acquired adaptation is lost again. The animal enters a third phase, the *stage of exhaustion*, which follows inexorably if the stressor is severe enough and is applied for a sufficient length of time.

Because of its great practical importance, it should be pointed out that the three-phase nature of the G.A.S. gave us the first indication that the body's adaptability, or *adaptation energy*, is finite, since under constant stress exhaustion eventually ensues. We still do not know precisely what is lost, except that it is not merely caloric energy, since food intake is normal during the stage of resistance. One would think that once adaptation has occurred and ample caloric energy is available, resistance should go on indefinitely. Not so. Just as any inanimate machine gradually wears out, so does the human machine sooner or later become the victim of constant wear and tear. These three stages are suggestive of childhood (with its characteristic low resistance and excessive responses to any kind of stimulus), adulthood (during which the body has adapted to most commonly encountered agents and resistance is increased), and senility (characterized by loss of adaptability and eventual exhaustion).

A much more detailed account of the stress concept is contained in my books, *Stress without Distress* and *The Stress of Life*.

Spectrum is a quarterly publication of Canadian Imperial Bank of Commerce that provides a platform for the free expression of informed opinions by persons of recognized eminence in their particular fields.

A French edition of *Spectrum* is available, under the title *Tribune.* Copies of both publications may be obtained by writing to the Editor.

Readers' comments and views about *Spectrum* and its topics are invited. Your response is a challenge.

The Editor, *Spectrum*
Canadian Imperial
Bank of Commerce
Head Office, Commerce Court
Toronto, Ontario, Canada
M5L 1A2

CANADIAN IMPERIAL
BANK OF COMMERCE

SPECTRUM

CANADIAN IMPERIAL
BANK OF COMMERCE

Volume 2, Number 1, 1981

Canada's National Priorities and the Changing World Economy

by Russell E. Harrison

Russell E. Harrison – Chairman and Chief Executive Officer, Canadian Imperial Bank of Commerce.

Mr. Harrison is a Director of: The Western Assurance Company; Royal Insurance Company of Canada Limited; Canada Life Assurance Company; TransCanada PipeLines; Falconbridge Nickel Mines Limited and MacMillan Bloedel Limited

Mr. Harrison was born in Grandview, Manitoba, and was educated at the University of Manitoba. After completing military service in Europe during World War II he joined The Canadian Bank of Commerce in Winnipeg in 1945.

He was appointed to head the Bank's operations in Quebec in December, 1956, and he remained in Montreal until August, 1969, when he was appointed Executive Vice-President and Chief General Manager at the Bank's Head Office, Toronto. In 1973, Mr. Harrison was appointed President and Chief Operating Officer. In 1976, he was elected Chairman and Chief Executive Officer.

Mr. Harrison is active in community affairs as well as in business circles. He is involved with the Canadian Council of Christians and Jews Inc.; Business Council on National Issues and The Conference Board Inc. He is National Chairman, Ministries Enrichment Program, The Salvation Army; Chairman, National Sanitarium Association; Vice-Chairman, Finance Committee and Governor, Massey Hall.

There are fewer than twenty years remaining in the twentieth century – the century that Sir Wilfrid Laurier said would belong to Canada.

When he spoke in 1905 he could not have known his inspiring remark presaged a first half-century marred by two world wars and a debilitating great depression. But the dream remained alive, and as Canada and the world put global warfare behind them, our country entered into a prolonged period of rising prosperity and growing international stature. By the 1970s, however, much of the gloss had gone, as our economic performance slipped and our national preoccupations shifted to constitutional issues and internal political divisions. There remain to us nineteen years to fulfill in this century the Canadian dream to which Laurier gave expression. Both our astonishing potential and our skills and aspirations provide the basis for a strong economic finish to the year 2000. This is the theme I would like to strike in this fifth issue of *Spectrum*, the first of Volume 2. Can we mobilize the collective will and political leadership to do so?

A Sleeping Giant

It may come as a surprise to some that by most objective measures Canada ranks among the ten most important countries – and economies – of the more than one hundred and fifty members of the United Nations. This represents a very significant achievement. For example, the following chart ranks the top economies in the world by size of Gross Domestic Product, together with six other strategic indicators of economic importance:

The Ten Leading Economic Powers: Selected Indicators
(ranked by Gross Domestic Product)

	Gross Domestic Product (U.S.$ billion)	Population (millions)	Territory (000 sq. mile)	Arable Land Per Capita (acres)	Proven Oil Reserves (billion barrels)	Annual Income Per Capita U.S.$	Exports (U.S.$ billion)
1. United States	2,343	222	3,618	2.1	26.5	8,612	186.8
2. Japan	974	116	144	0.09	0.5	7,153	102.3
3. U.S.S.R.	850*	262	8,649	2.1	67.0	2,600	54.7
4. West Germany	759	61	96	0.3	0.48	9,278	171.9
5. France	472	53	213	0.8	0.05	7,908	100.7
6. China	340	1,012	3,692	0.3	20.0	232	7.2
7. United Kingdom	310	56	94	0.3	15.4	4,955	91.0
8. Italy	260	57	116	0.4	0.65	3,076	72.2
9. Canada	229	23	3,831	4.6	6.8	7,572	58.2
10. Brazil	189	119	2,965	0.7	1.2	1,523	15.2

*Estimate
Source: 1981 World Almanac

It is instructive to note that Canada ranks among the top ten countries by all these measures except population size. Only the United States ranks in the top ten in all categories. The Soviet Union ranks in the top ten in only five, West Germany in only four, Japan in only three.

Despite our size and strength, however, Canada has lagged behind most other industrial countries in recent years in critical areas such as real growth, productivity gains, employment, and ability to control inflation.

Looking outward, it might be said that Canada is a world economic power which has yet to sense its own strength. Our problems at home have perhaps obscured the vision with which we should step forth on the international scene. My call is to examine the special challenge and opportunity before us in the changing world economy.

Economic Strengths – Past and Present

There can be no doubt that Canada has been richly blessed, particularly because of the vast and rich continental land mass which is our endowment. We have also been especially favoured by history.

Our prosperity and success owe much to our early development as a British colony, or, more correctly, a collection of them, prior to Confederation. Through the nineteenth century Britain was the leading technological and industrial, as well as military, power of the world. Canada inherited from Britain commercial and political institutions which were also the most sophisticated and developed of the time. The British Empire connection also laid the foundation for expanding international trade based on the growing importance of our extensive natural resource base.

In the first quarter of the twentieth century, and especially after World War I, Great Britain's importance began to recede, and the United States emerged as the dominant military, economic, industrial and technological power. Again, Canada was especially favoured. Our shared border, language, commercial system and political values with the United States enabled Canada to rapidly expand her trade, investment, technological and other links with that country. We were thus able to participate in a very substantial way in the benefits of economic growth driven by the spectacularly dynamic growth and performance of the American commercial empire.

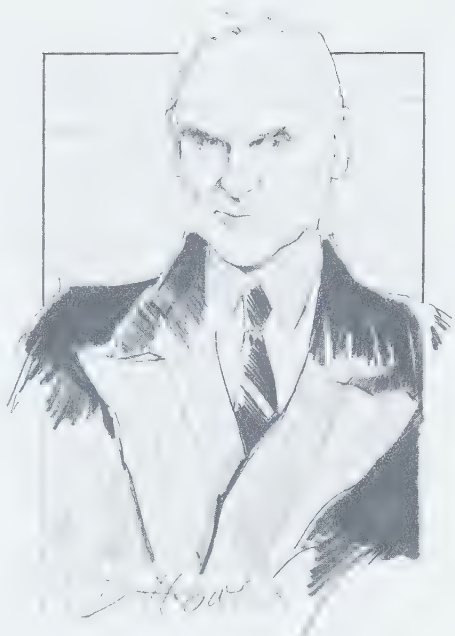
We should not minimize, however, the role which Canadians themselves have played in building one of the most powerful economies of the world. Opportunities may indeed have favoured us, but it is Canadians themselves who took advantage of them, and made the sacrifices of effort and savings to make economic dreams economic realities.

The railway, and indeed the opening up of the country to productive agricultural settlement, resource exploration and a developing manufacturing sector are examples, beginning in the last century. However, the most dramatic periods of economic growth in Canada occurred in the years following the Second World War and up until the early 1970s.

Many *Spectrum* readers in their 20s and 30s will only dimly recall the great period of national expansion of the 1950s. We now take the St. Lawrence Seaway and the Trans Canada Pipeline for granted. In 1950, neither of these great national transportation systems existed. Until the late 1940s, we did not even have the beginnings of an oil industry in western Canada. At the political level, the late C. D. Howe, the most powerful minister in the St-Laurent government, both symbolized and presided over the top priority given economic expansion by the Canadian government, as a whole new generation of manufacturing and resource industries took shape. At the consumer level, more Canadians than ever before were able to own their own houses. For the first time, the family car became a national institution.

Home appliances, secondary and post-secondary education, travel, and many other goods and services made the quality of life in Canada very close to the best in the world. Our financial system, including the Canadian chartered banks, grew equally quickly in strength and sophistication to service the needs of our rapidly expanding economy.

Canada had also begun to enjoy an international stature. As the 1960s opened, Canada used its international prestige to participate as a major player in the world economy, notably in successive GATT (General Agreement on Tariffs and Trade) negotiations



which provided for a rapid expansion of multilateral world trade, particularly among developed countries. On a bilateral basis, the Canada-U.S. Auto Pact (1965) laid the foundation for significant rationalization and expansion of this industry in North America.

In the catch-phrase of the 1970s and 80s, Canada played a major role in shaping the "economic interdependence" which now characterizes the world economy.

Recent Developments, Recent Concerns

In the 1970s, Canada's national priorities began to shift from economic growth and stability to internal political controversies, notably around the constitutional position of the federal government vis-à-vis the provinces, and particularly the place of Quebec and, latterly, the western provinces, in Confederation. This coincided with dramatic shocks to the international system from the oil crises of 1973 and 1979, and a serious deterioration in world economic conditions. With that, we put behind us 20 or more years of rapid growth, low inflation and the progressive strengthening of our key manufacturing and resource industries.

By the end of the 1970s we had accumulated nearly 10 years of sustained inflation, several years of sluggish growth, serious relative decline in our international trading position and, despite a weak Canadian dollar in the latter part of the decade, a worrying reversion to a largely resource-based export account and large-scale imports of manufactured goods. There have only recently been signs this may be reversed, stimulated by the low value of the Canadian dollar; it remains to be seen whether this encouraging trend will be sustained.

In an interdependent world, Canada cannot be immune from international developments, such as the recessionary impact of soaring OPEC-led oil prices, high U.S.-led international interest rates or sluggish growth in some

of the developed countries which are our major markets. However, there is much we can do and should be doing at home. We should not be laying the blame for our difficulties merely on international developments. We should be carefully re-examining our own domestic policies and priorities.

The dimensions of our national economic dilemma deserve careful scrutiny. I would like to touch briefly on each of four main aspects: inflation, growth, productivity, and competitiveness.

Inflation was the subject of my first contribution to *Spectrum*, approximately one year ago. I would repeat what I said at that time: there is no solution to our economic problems that does not include a substantial reining in of domestic inflationary forces. This can only be achieved by consistent monetary restraint and an effective commitment to reducing the size of the federal deficit.

The interdependence of the world economies and especially of the developed countries means that recessionary trends in many of the major economies weaken the trade and growth performance of the developed countries as a whole. However, the decline in Canada's relative position cannot be explained away by reference to our "dependence on interdependence" among the major economies of the world. Our problems are to a very real extent "Made in Canada".

The decline in our overall productivity growth and in our manufacturing competitiveness are causes for special concern. As a manufacturing nation, Canada faces a problem which is common to all high-wage industrial countries. Increasingly, the so-called Newly Industrialized Countries, or NICs, are able to produce and sell manufactured products on a much more competitive basis in world markets, particularly in industries based on mature technologies, such as textiles and consumer electronics.

The newly industrialized countries include nations such as South Korea, Taiwan, Mexico and Brazil. Unfortunately, Canada's response has too often been to protect and subsidize declining industries, in order to protect employment levels in those industries in the short and medium term. This represents a use of national resources which is likely over the longer term to prove unwise. It is a strategy which merely postpones the necessary adjustment; it does not eliminate the need for it. Instead we should be improving economic efficiency and encouraging new productive investment, especially in sophisticated high technology product and service areas where we can secure a comparative advantage and provide meaningful employment based on the skill profile of our highly educated labour force.

There are many important factors behind Canada's poor productivity performance, of which I would like to mention three. One is that, as an advanced industrial society, we are increasingly a service-oriented economy.

The services sector is the most rapidly expanding sector; it is also the sector where the productivity gains occur much more selectively or not at all, especially where the expansion occurs in the government services sector. The economic sector where there is the most potential for productivity growth, new high-technology industry, is of uneven strength in Canada.

There are many Canadian success stories in such fields as telecommunications, aerospace and health sciences. On the other hand our overall investment in research and development, measured as a percentage of gross national product, ranks well behind other successful industrial countries such as Japan, West Germany and Sweden.

The United States economy, too, has shown a relative decline in productivity generation, somewhat paralleling Canada's. Its levels of research and development have also fallen behind its previous leadership role in national commitment to the development of new technologies. It remains true, of course, that the United States is a technological giant. However in recent years many other countries, notably West Germany and Japan, have successfully challenged the United States in areas where it was formerly dominant. Automobiles, consumer electronics and, to an increasing extent, sophisticated office equipment are leading examples. Countries such as Japan and West Germany have also demonstrated impressive strength in adapting their business arrangements, including labour-management relationships, to exploit technologies on a highly competitive basis internationally. North America has lagged behind.

The relative change in U.S. technological standing – from a position of dominance to a position of interdependence and, in selected instances, vulnerability – is illustrative of an important change in Canada's international economic circumstances, one which we must now begin to address. We must actively diversify our market, investment and technological connections in the world.

We can no longer rely on riding the coat tails of a dominant world power as we have done for most of our history. There is no longer a single dominant economic power in the world, let alone one with which Canada has a privileged relationship. We are entering – or have entered – a new era in our national existence where we must expand our markets throughout the world. An emphasis on one or two markets, especially ones which are our major competitors, will no longer suffice. We would do well to note that this is central to the strategy of successful countries such as West Germany and Japan.

It is unfortunate that some see growing world interdependence as a problem. Some use it – incorrectly, as I noted in a previous *Spectrum* article – to explain away domestic responsibility for our economic ills. There is much we can and must do at home, ourselves. Our domestic affairs can only be our own responsibility. But interdependence, too, must be seen as a Canadian issue, calling for a Canadian response.

Choices and Challenges

It has been argued that the cure for our ills lies in a comprehensive "industrial strategy". The germ of this idea is that government policy-makers should be choosing the "winners" and "losers" in the economic game, and backing the firms and industries which are the chosen with substantial policy and financial support.

I must say I view this approach with considerable skepticism and, indeed, apprehension. It is market forces, not government guesswork, which should guide our economic development and our economic pruning. The industrial landscape in Canada and many other countries is littered with government-sponsored industrial concerns which challenge market forces rather than respond to them. I think that an industrial strategy based on a process of government selection of the winners and losers is a very high-risk strategy which will only increase our vulnerabilities.

This is not to say that there isn't a critically important role for government to play. It begins, of course, with creating a healthy general economic climate: containing inflation, responsible management of monetary aggregates, moderation in public expenditure (especially in demands on the debt and money markets to finance government deficits), a stimulative taxation and regulatory environment, and an effective long-term approach to energy pricing and supplies.

But there is an even more important choice which Canada must make. We must seize interdependence as an opportunity rather than an obstacle.

The single most promising growth opportunity in the world lies in rising living standards among the countries having more than three-quarters of the world's population but which are not yet highly industrialized. Most developed countries have reached a level of maturity reflected in flattening growth rates and prospects within their own domestic markets and are increasingly preoccupied with competitive attacks on and adjustment problems of their own industries. This is reflected particularly in the proliferation of non-tariff barriers and the strong resistance to their comprehensive removal in the Tokyo Round of the General Agreement on Tariffs and Trade and within the European Economic Community.

In population terms and in terms of total economic prospects it is the developing countries which represent an enormous potential prospect for significantly expanded production of consumer and industrial goods and services of all kinds. However, these are markets with highly constrained buying power, and much of the available buying power is in currencies which are weak or unconvertible. This means that Canada's commercial participation in this large potential growth sector will require imaginative strategies, different from those we have emphasized in the past. I will be returning to this theme in a moment.

In recent years we have heard many rhetorical calls for a "New International Economic Order", which is a not-too-thinly disguised call for a form of international socialism to redistribute the world's wealth to less economically favoured countries – which, of course, compose most of the world. As formulated, the New International Economic Order calls for large direct transfers of wealth from richer to poorer nations; and even larger indirect transfers through cancellation

or significant rewriting of the terms of international loans. It would also involve markedly improved access for Third World exports to developed countries, which would improve international economic efficiency, but which would also lead to significant displacement of domestic production in those economies. As a result, the "North-South dialogue" is all too frequently viewed as a "zero-sum game" in which gains for one can only be achieved at the expense of equivalent losses for others.

If the early expansion of trade, production and economic opportunity in what are now the industrialized countries of the world had proceeded on this belief, development would likely never have occurred. Growth is a process in which there are greater benefits generally, not merely benefits for some at the expense of others. Growth requires savings, investment, adjustment and sacrifice in the present to secure future benefits. It is in this spirit that Canadian governments and Canadian business must approach the world economy of the late twentieth century. We must approach world development and international economic interdependence not as problems or obstacles but as opportunities.

Some Signposts for Canada

To seize interdependence as an opportunity, we must as Canadians reach out to the world with our skills – and they are considerable. We must redirect our focus away from an excessive reliance on the North American market. The market of the future is a global one. Canadians must be participating with their skills, technology and capital in all the important areas of the world.

We must also use new and imaginative techniques. We are not, outside the developed world, dealing with ready-made consumer or industrial markets. Indeed, the market we are addressing is initially a market for development rather than consumption. Economic development is the product we must market. This is a product which must be sold, and returns captured, on a basis that differs from straight export sales. As Canadians we should not shy away from this prospect, because we have considerable skills and resources to market and apply in this endeavour.

The most important characteristic of a development product, or package of services, is its ability to generate its own foreign exchange earnings or savings. This is obviously the case where the product or project is aid-financed, but this is really a form of Canadian domestic market limited by the government's financial commitments, notably to Canadian International Development Agency. What I would like to stress are strategies for Canadian private-sector participation in global development.

A key way for Canadians to market their products and services in the Third World is through direct investment in foreign exchange earning or conserving projects in other countries. I take it as an encouraging sign that Canadian firms are increasingly making or considering equity investments outside of North America. We have many industries in Canada, and companies both large and small, who are in a position to participate in a profitable way in the economic development of other countries. Mineral resource development, pulp and paper, and electrical generation are obvious examples. The same is true of a number of manufacturing sectors, and indeed some Canadian companies such as Massey-Ferguson and Bata Industries Limited are already established manufacturers in many parts of the world. Our consulting, engineering, financial and other sophisticated service sectors are also highly regarded in the world.

Another approach which is increasingly being used by Canadian companies to market their products and services is through various joint venture arrangements. These can take a variety of forms: complex contracts which design in significant local benefits; local assembly or construction packages organized around sophisticated core products, components or technologies originating in Canada; a local industrial benefits package associated with major purchases of Canadian capital goods; or complex barter arrangements, such as access to energy supplies in exchange for industrial development packages. It is through techniques of this kind, which are considerably more sophisticated than conventional export sales, that more and more Canadian enterprises can and must participate in the Third World growth market of the future. Bell Canada's contract with respect to telephone systems in Saudi Arabia, and the sale of Candu nuclear reactors, are prominent examples. There are an increasing number of smaller Canadian companies successfully using these

techniques as well. These are accomplishing more than export sales and investment opportunities for Canadian concerns. They are also achieving a presence for marketable Canadian skills in areas of major future potential; and associating Canadian human and physical capital with lower-cost wage structures which are the competitive thrust of the present and, increasingly, of the future. These approaches must proceed on the basis of a sound analysis of the economic and political risks involved. Wherever possible, advantage should be taken of international financial facilities and guarantees which will lessen risk.

Canadians should not, of course, be concentrating exclusively on Third World countries to the neglect of new or traditional opportunities elsewhere. We will continue to have close and productive trade and investment relations with the United States, and with Europe. We should be aggressively broadening our trade, investment, technology and service contacts with Japan, the second largest economic power in the world. We should be carefully examining ways in which

Canadian companies can participate in high-growth, newly industrialized countries such as Mexico, Brazil, Taiwan, South Korea, and various OPEC countries including Saudi Arabia, Nigeria and Venezuela. Canada, as I noted at the beginning of this article, has the potential to be an increasingly important presence throughout the world, but success will require a new emphasis on international sophistication.

I should make brief reference to the role of Canadian financial institutions in this process. Canada's chartered banks rank high by world standards. Increasingly in recent years, Canadian banks and other financial institutions such as investment dealers have been expanding their presence and affiliations in global financial markets. They have established new financial arms in leading European, Asian and other financial centres. They have been major participants in international financial consortia and syndicates. They have expanded their network of branches and agencies in other countries. The new Bank Act should lead to some significant expansion of these initiatives. By permitting foreign financial institutions increased access to the Canadian market, the new provisions will, on a reciprocal basis, expand the activities of Canadian banks in other countries. Both the presence of foreign banks in Canada and an expanded and expanding Canadian banking presence abroad will broaden and deepen Canada's international connections.

Addressing Domestic Priorities

Having stressed the importance of Canada reaching out to the world and seizing interdependency as an opportunity, I should also stress how important it is that we get our domestic economic housekeeping in better order if we are to position ourselves to play the economic role in the world which should be our destiny. I have already referred to the importance of governments, and especially the federal government, creating a healthy business climate. It is essential that inflation be reined in by a more determined governmental commitment to addressing its fundamental causes. In addition, it is essential that governments take a hard look at high levels of taxation and government intervention and regulation which reduce incentives to invest and produce. Excessive interference by bureaucrats in the business affairs of private firms serves no useful purpose.

I have also expressed my skepticism about some current notions of an industrial strategy for Canada, and specifically the substitution of government decision-making for market forces in determining economic winners and losers. However, there is a need for appropriate government involvement in industrial strategies which respond to the exigencies of the market.

In emerging industries, for example, governments can play a useful role in accelerating the development of domestic enterprises and technologies, especially where correct timing and technological and industry positioning are important. In countries such as Japan, West Germany and France, this approach has demonstrated successes in the last two decades in the context of their economic systems. In Canada, developments in fields such as public transportation, telecommunications and aerospace have benefited from timely government support.

In the area of international economic relations generally, Canada can play an important role in supporting international efforts aimed at alleviating some of the most serious balance-of-payments consequences of the explosive rise in oil prices since 1973. As a major exporting nation, it is in our interest that the re-cycling of petro-dollars from surplus to deficit countries take place as smoothly as possible. As regards our relations with the industrialized countries, it is of course desirable that efforts to come to grips with the problems of inflation, slow growth, lagging investment and productivity be co-ordinated between nations. A key point here, however, is that better economic management at home by each country, including Canada, would in itself produce a better-managed world economy, quite independent of conscious effort at international co-operation.

In our future relations with other countries, it will be particularly important to safeguard our reputation as an attractive place to invest and to conduct business generally. In a decade when huge investments will take place to ensure future energy self-sufficiency as well as the maintenance and further development of a viable industrial structure, foreign financing will often be crucial. Against this background, it is essential that government create a stable and predictable economic and financial environment, avoiding any action which would throw into question our ability to deal with our domestic problems, whether political or economic.

Canada, as I said at the outset, is a country whose blessings, economic and otherwise, outnumber those of almost every other country. While our potential is apparent, our success is by no means guaranteed, as recent economic performance amply indicates. Canadians, I am sure, will not be content to accept the destiny of a country which *once* had a great future. The future, which is rapidly becoming the present, poses challenging opportunities, but only if we intelligently respond to dramatically changing international circumstances. The twilight of the twentieth century is also the horizon of the twenty-first. That too can belong to Canada.

Spectrum is a quarterly publication of Canadian Imperial Bank of Commerce that provides a platform for the free expression of informed opinions by persons of recognized eminence in their particular fields.

A French edition of *Spectrum* is available, under the title *Tribune.* Copies of both publications may be obtained by writing to the Editor.

Readers' comments and views about *Spectrum* and its topics are invited. Your response is a challenge.

The Editor, *Spectrum*
Canadian Imperial
Bank of Commerce
Head Office, Commerce Court
Toronto, Ontario, Canada
M5L 1A2

CANADIAN IMPERIAL
BANK OF COMMERCE

1981

AR29

CANADIAN IMPERIAL
BANK OF COMMERCE

HEAD OFFICE

COMMERCE COURT

TORONTO, CANADA

M5L 1A2

PRINTED IN CANADA

CANADIAN IMPERIAL
BANK OF COMMERCE

INTERIM REPORT

For the six months ended

April 30, 1982

CHAIRMAN
AND CHIEF EXECUTIVE OFFICER
R. E. HARRISON

CONSOLIDATED INTERIM STATEMENT OF INCOME (unaudited)

(in thousands of dollars)

	For the three months ended April 30		For the six months ended April 30	
	1982	1981	1982	1981
Interest income:				
Income from loans, excluding leases	$1,993,147	$1,656,096	$4,062,452	$3,112,063
Income from lease financing	8,881	7,563	17,675	14,668
Income from securities	120,001	123,438	272,510	236,781
Income from deposits with banks	154,689	205,512	329,935	452,622
Total interest income, including dividends	2,276,718	1,992,609	4,682,572	3,816,134
Interest expense:				
Interest on deposits	1,883,909	1,632,772	3,910,708	3,082,335
Interest on bank debentures	20,708	12,619	39,414	25,436
Interest on liabilities other than deposits	4,216	5,061	9,096	10,199
Total interest expense	1,908,833	1,650,452	3,959,218	3,117,970
Net interest income	367,885	342,157	723,354	698,164
Provision for loan losses	82,078	52,794	142,600	99,912
Net interest income after loan loss provision	285,807	289,363	580,754	598,252
Other income	101,563	89,620	198,107	175,174
Net interest and other income	387,370	378,983	778,861	773,426
Non-interest expenses:				
Salaries	195,073	168,730	377,045	325,495
Pension contributions and other staff benefits	17,801	14,621	34,072	29,269
Premises and equipment expenses, including depreciation	55,033	47,530	107,960	94,533
Other expenses	71,755	62,292	141,090	118,238
Total non-interest expenses	339,662	293,173	660,167	567,535
Net income before provision for income taxes	47,708	85,810	118,694	205,891
Provision for income taxes	(6,100)	19,985	3,500	57,835
Net income before minority interest in subsidiaries	53,808	65,825	115,194	148,056
Minority interest in subsidiaries	1,288	360	2,512	694
Net income	$ 52,520	$ 65,465	$ 112,682	$ 147,362
Dividends paid on preferred shares				
Class A series 1	$ 1,875	$ —	$ 3,750	$ —
Class A series 2	4,863	—	4,863	—
Class B series 1	4,613	4,050	9,225	4,050
Net income applicable to common shares	41,169	61,415	94,844	143,312
	$ 52,520	$ 65,465	$ 112,682	$ 147,362

CONDENSED CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES (unaudited)

(in thousands of dollars)

	As at April 30	
	1982	1981
ASSETS		
Cash resources	$ 7,029,047	$ 7,811,730
Securities	4,378,812	4,137,032
Loans	45,112,043	36,510,275
Mortgage loans	7,055,042	6,550,892
Other assets	5,089,234	3,378,411
Total assets	$68,664,178	$58,388,340
LIABILITIES		
Deposits		
Payable on demand	$ 5,661,292	$ 6,599,125
Payable after notice	14,376,272	12,279,599
Payable on a fixed date	40,588,400	33,677,290
Total deposits	60,625,964	52,556,014
Other liabilities	5,053,158	3,465,533
Bank debentures	659,190	462,108
Capital and reserves	2,325,866	1,904,685
Total liabilities	$68,664,178	$58,388,340

NOTES

1. Comparative figures for 1981 have been restated to conform to the 1980 Bank Act. The financial statements include the accounts of all subsidiaries on a consolidated basis; investments in affiliates (20% to 50% owned companies) are accounted for by the equity method.

2. Fully diluted net income per common share is calculated on the weighted daily average number of common shares which would have been outstanding if all the Class B preferred shares had been converted to common shares and all outstanding warrants exercised at their respective dates of issue. It is presumed that the additional capital from the exercise of these warrants would leverage assets in the same ratio as capital bore to assets during the period. These additional assets are assumed to generate income at the same net rate of return as earned on existing assets of the Bank.

Financial Highlights

($ thousands)	For the three months ended April 30 1982	1981	% change
Net income	$52,520	$65,465	−20
Net income applicable to common shares	$41,169	$61,415	−33
Per share			
basic	$ 1.04	$ 1.57	−34
fully diluted (note 2)	$ .97	$ 1.40	−31
Common share dividends declared	$20,504	$18,422	+11
Per share	52¢	47¢	+11
Average number of shares outstanding	39,436,104	39,195,000	

($ thousands)	For the six months ended April 30 1982	1981	% change
Net income	$112,682	$147,362	−24
Net income applicable to common shares	$ 94,844	$143,312	−34
Per share			
basic	$ 2.41	$ 3.66	−34
fully diluted (note 2)	$ 2.21	$ 3.49	−37
Common share dividends declared	$ 40,935	$ 36,060	+13
Per share	$ 1.04	92¢	+13
Average number of shares outstanding	39,365,134	39,195,000	

($ millions)	As at April 30 1982	1981	% change
Total assets	$68,664	$58,388	+18
Appropriations for contingencies*	136	116	
Shareholders' equity			
Preferred	450	225	
Common	1,740	1,564	
Capital and reserves	$ 2,326	$ 1,905	+22
Common shares outstanding	39,603,663	39,195,000	

*Subject to year end transfers

To Our Shareholders

Consolidated net income for the three months ended April 30, 1982 amounted to $52.5 million, a reduction of $12.9 million or 20% from the same period last year. Earnings per common share on a fully diluted basis were 97 cents compared with $1.40 last year. Average assets during the period totalled $68.2 billion an increase of 18% from last year. However, asset growth has slowed down considerably since the year end, total assets having increased by 4.5% or almost $3 billion. Net income expressed as a return on $100 of average assets fell to 31 cents compared with last year's figure of 46 cents.

The six months' net income to April 30, 1982 totalled $112.7 million, a 24% drop from last year's figure of $147.4 million. Fully diluted earnings per common share for the six months were $2.21 compared with $3.49 a year ago. The return on $100 of average assets was 33 cents compared with 52 cents last year.

The reduction in earnings has taken place in domestic operations. While net interest margins for the second quarter improved over the first quarter, they were still below the 1981 levels. The estimate of loan losses which will require to be provided for by the end of this fiscal year has been increased due to the impact that the present recession is having on customers of the Bank. The provision for loan losses for the six months, therefore, has been increased to $142.6 million, 43% higher than last year.

Earnings from international operations for the second quarter were down from the first quarter and equal to the earnings in the second quarter of last year.

Total capital and reserves stood at $2.3 billion at April 30, 1982, a 22% increase from a year earlier. As reported in the January quarterly report to shareholders, $150 million was received on February 9, 1982 from the issue of Class A preferred shares series 2. On April 28, 1982, a further $3.9 million was added to the common share capital resulting from the dividend reinvestment and share purchase plan and stock dividend program.

Pursuant to the Bank Act and Order-in-Council Number P.C. 1982—1159 the authorized capital of the Bank has been changed to provide for 200 million common shares without nominal or par value provided that such common shares shall not be issued for a consideration exceeding in the aggregate $3 billion.

R. E. HARRISON
CHAIRMAN AND CHIEF EXECUTIVE OFFICER